MONTHLY ECONOMIC REVIEW
March 2010
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OVERVIEW

Introduction

This Monthly Economic Review highlights recent economic developments through March 2010. It highlights developments in money, credit and banking, inflation, interest rates and the exchange rates. It also highlights developments in the real sector, Government budgetary operations, public debt and balance of payments.

Monetary Expansion

Money supply, M3, grew by 22.3 percent in the year to March 2010 compared with 11.7 percent in a corresponding period in 2009 and was above the projected 18.2 percent growth rate for March 2010. The expansion of money supply in the year to March 2010 was mainly due to the growth lending by banking institutions and accumulation of net foreign assets (NFA).

Interest Rates

The Monetary Policy Committee in their meeting of March 2010 lowered the Central Bank Rate (CBR) to 6.75 percent to signal a reduction in the short term interest rates. Short-term interest rates declined in March 2010 with average interbank rate declining to 2.21 percent from 2.39 percent in February 2010. During the same period, commercial banks average lending rates declined to 14.8 percent in March 2010 from 14.98 percent in February 2010, while the average deposit rate declined from 4.89 percent in February 2010 to 4.74 percent in March 2010.

Real GDP Growth

Economic growth stagnated in the third quarter of 2009 at 0.0 percent with the level of output of goods and services remaining equal to that experienced in the same quarter of 2008. This was as a result of various shocks including the persistent drought which adversely affected the agricultural and electricity sectors and the rising fuel prices which suppressed the transport and manufacturing sectors. Agriculture, which constitutes 23.4 percent of GDP, declined by 3.5 percent during the third quarter of 2009 while Manufacturing, Transport and communications, and Construction, which together account for about 25.0 percent of GDP also declined during the quarter by 2.4, 1.8 and 1.12 percent, respectively. The above decreases were counteracted by increases in some sectors, with the hotels and restaurants sector leading by 44.4 percent increase. Other shocks included the global economic crisis and the lag effects of the post election crisis experienced in 2008, all of which affected growth during the quarter. Growth rates during the first and second quarter of 2009 were equivalent to 4.0 and 2.1 percent, respectively.

Inflation

The overall 12-month inflation stood at 4.0 percent in March 2010, a level last achieved over two years ago. Overall inflation has been on a downward trend for over one year falling from 19.5 percent in November 2008. The annual average rate, on the other hand progressed downward more gradually from 15.3 percent in November 2008 to 7.0 percent in March 2010.

Government Fiscal Operations

The central Government budgetary operations in the third quarter of the fiscal year 2009/10 resulted in a deficit of Ksh 96.2 billion or 3.8 percent of GDP on commitment basis compared with a deficit of Ksh 32.7 billion or 1.4 percent of GDP in a similar period of 2008/09. The budget deficit during the period was within the programmed target of 4.7 percent of GDP on a commitment basis.

Public Debt Developments

Kenya's public and publicly guaranteed debt increased by 10.7 percent in the third quarter of fiscal year 2009/10 to stand at Ksh 1,166 billion in March 2010 from Ksh 1,053.7 billion in June 2009. The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21 percent in March 2010 while the domestic debt to GDP ratio increased from 21.7 percent to 25.5 percent during the period.

Balance of Payments

Kenya's overall balance of payments improved from a deficit of US$ 706 million in the year to February 2009, to a surplus of US$ 469 million in the year to February 2010. The improvement reflects a surplus in the capital and financial account which offset the deficit on the current account.

Exchange Rates

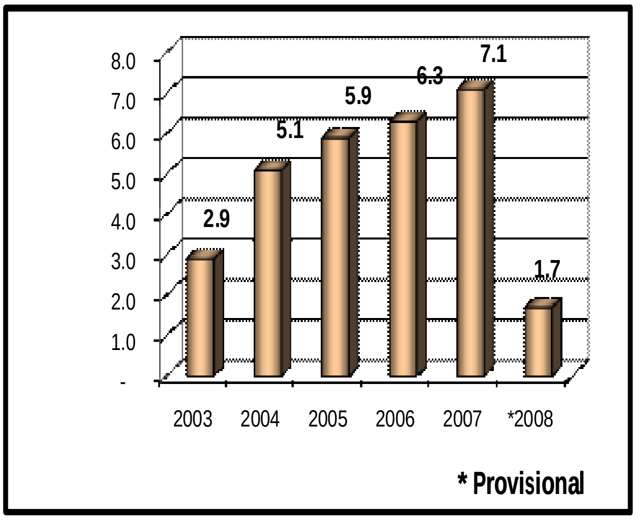
The Kenya Shilling depicted mixed performance against major world currencies, weakening against both the US dollar and the Japanese Yen but strengthening against the Euro and the Sterling Pound. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 76.95 per US dollar in March 2010 compared with Ksh 76.69 per US dollar in February 2010.

Banking Sector Developments

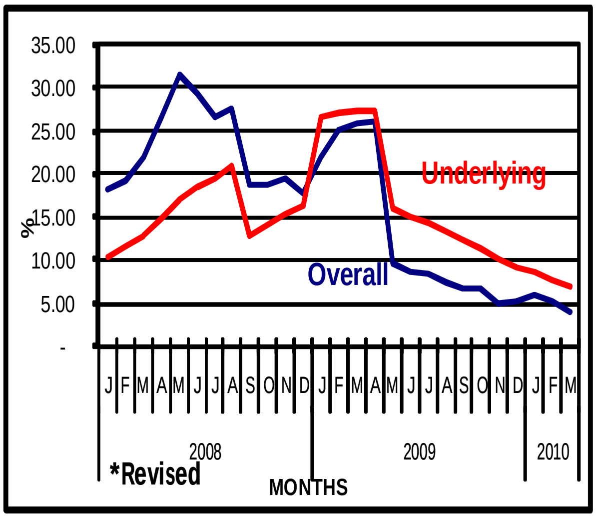
The Kenyan Banking sector registered growth in asset base largely supported by growth in deposits, injection of capital and retention of profits in March 2010. The sector registered sufficient capital adequacy and liquidity ratios. The stock of gross non-performing loans (NPLs), declined by 3.1 percent from Ksh 65.0 billion in March 2009 to Ksh 63.0 billion at end of March 2010.

SELECTED ECONOMIC PERFORMANCE INDICATORS

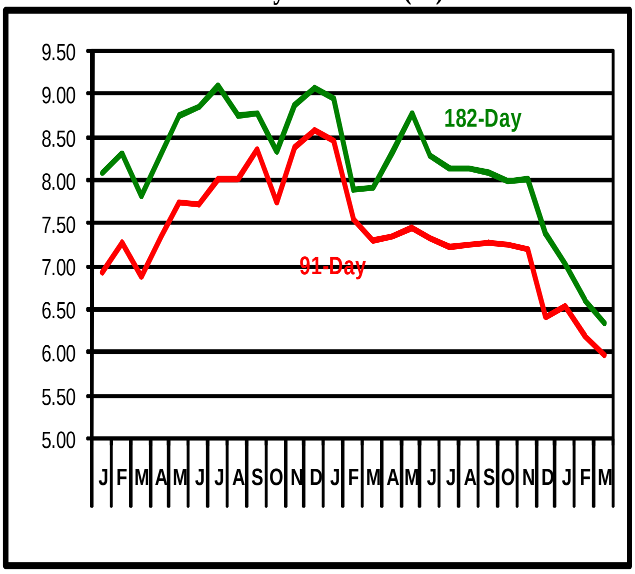
Real GDP Growth (%)



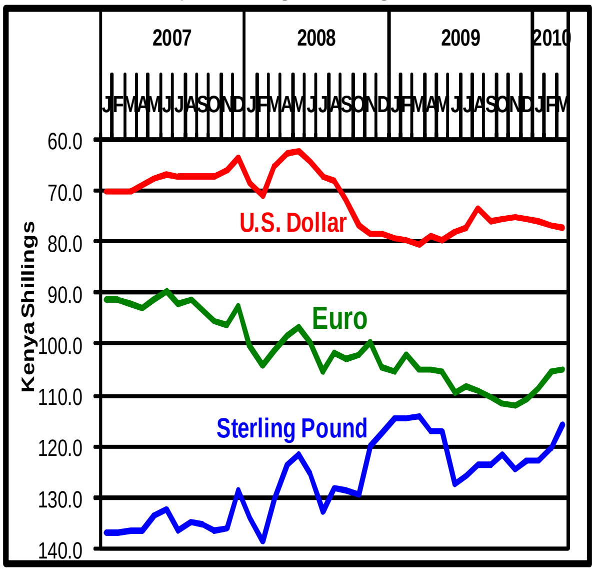
Inflation (%)*



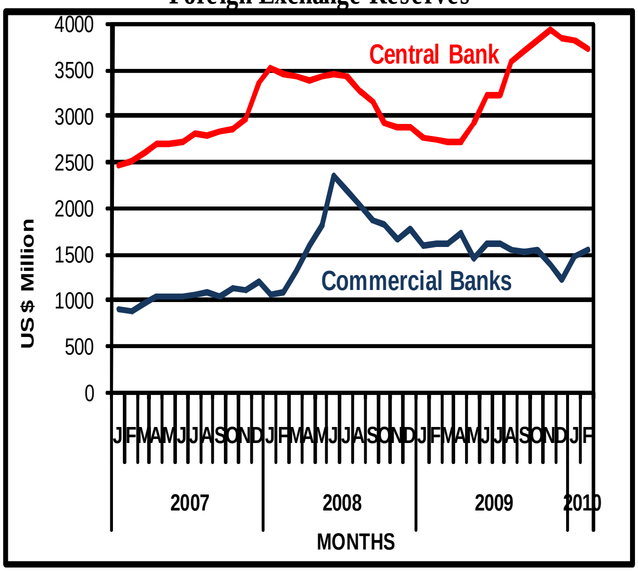
Treasury Bill Rates (%)



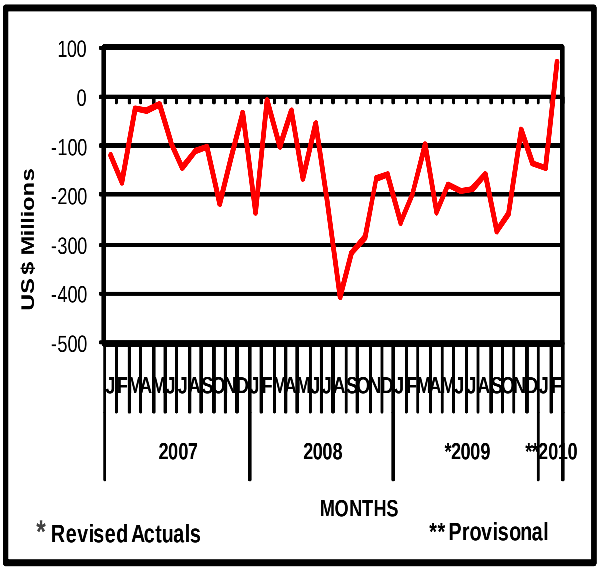
Kenya Shilling Exchange Rate



Foreign Exchange Reserves



Current Account Balance



SELECTED ANNUAL ECONOMIC INDICATORS

	INDICATOR	2000	2001	2002	2003	2004	2005	2006	2007	2008*
1.	POPULATION*									
	People in Millions	29.53	30.90	32.20	33.20	34.20	35.10	36.10	37.20	38.30
	Growth (%)	3.00	4.64	4.21	3.11	2.54	2.50	2.85	3.05	2.96
2.	NATIONAL ACCOUNTS**									
	GDP at Basic Prices (Ksh m)	858,919	906,874	918,914	1,006,062	1,132,850	1,261,527	1,443,981	1,610,831	1,852,263
	GDP at Market Prices (Ksh m):									
	At Current Prices	967,838	1,020,022	1,035,374	1,131,783	1,274,328	1,415,724	1,622,434	1,825,960	2,099,798
	At Constant 2001 Market Prices	982,855	1,020,022	1,025,584	1,055,658	1,109,541	1,175,081	1,249,331	1,338,039	1,360,626
	Real GDP Growth (%)	0.60	4.50	0.60	2.90	5.10	5.91	6.32	7.10	1.69
	Per Capita Income Real 2001 prices (Ksh)	33,283	33,767	31,828	31,825	32,443	33,478	34,608	35,969	35,525
3.	GROSS NATIONAL SAVINGS (% of GDP at mkt prices)\[3]	12.9	10.0	8.1	10.1	12.2	13.4	14.9	13.1	14.8
4.	GROSS DOMESTIC SAVINGS (% of GDP at mkt prices)\[3]	6.7	4.4	4.0	4.8	6.6	7.2	7.2	5.8	7.9
5.	GROSS DOMESTIC INVESTMENTS (% of GDP at mkt prices)	17.4	18.8	14.9	16.4	17.1	16.9	18.0	19.1	19.2
6.	OVERALL INFLATION BASE PERIOD= FEB 2009									
	Annual Average Inflation	9.97	5.73	1.97	9.81	11.79	9.87	6.39	4.27	16.27
	12-Month Inflation	11.78	1.60	4.25	8.35	17.08	4.70	7.98	5.70	17.83
7.	STOCK MARKET									
	Nairobi Stock Exchange Price Index (1966=100)	1,913.40	1,355.10	1,362.90	2,737.60	2,945.58	3,973.04	5,645.65	5,444.83	3,521.18
	Trade Turnover (%)	0.17	0.17	0.50	0.89	0.92	0.88	1.70	1.29	0.29
8.	GOVERNMENT BUDGET (Ksh bn) ***									
	Revenue and Grants	182.69	216.39	203.44	228.16	270.92	303.85	331.21	383.59	457.67
	Expenditure	175.12	232.92	225.76	255.28	289.54	298.13	368.65	405.20	534.84
	Budget Deficit (-) / Surplus (+)	7.57	-16.53	-22.32	-27.11	-18.62	5.72	-37.44	-21.61	-77.17
	Budget Deficit (% of GDP)	0.81	-1.66	-2.19	-2.51	-1.54	0.42	-2.39	-1.18	-3.68
9.	MONEY AND CREDIT (Ksh bn)(end period)									
	Liquidity (L)[1]	435.47	462.13	521.20	569.43	633.92	712.32	834.16	992.42	1,092.01
	Money Supply (M3)[2]	360.01	368.39	406.01	453.35	513.16	565.49	666.84	797.54	901.13
	Reserve Money	77.73	79.12	88.45	87.52	101.05	106.23	124.16	155.62	163.59
	Total Domestic Credit	331.29	334.00	364.93	405.20	473.61	498.66	575.76	668.90	808.50
	Government	76.45	89.08	108.61	133.85	132.34	122.16	137.81	137.40	155.32
	Private sector and other public sector	254.85	244.93	256.33	271.41	341.27	376.50	437.94	531.49	653.18
10.	BALANCE OF PAYMENTS (US$ m)**									
	Overall Balance	217.00	372.00	59.00	365.00	117.00	306.00	675.00	854.00	469.00
	Current Account	-240.00	-385.00	-117.69	145.00	-133.00	-253.00	-511.00	-1,034.00	-1,983.00
	Capital and Financial Account	457.00	757.00	176.00	219.00	250.00	560.00	1,187.00	1,888.00	1,514.00
11.	FOREIGN EXCHANGE RESERVES (US$ m) End Period	1,398.72	1,459.35	1,612.69	1,888.04	2,078.40	2,534.16	3,331.30	4,556.97	4,640.78
	Official	897.42	1,063.82	1,066.99	1,479.75	1,518.73	1,798.82	2,415.27	3,354.85	2,875.46
	*Months of imports**** *	*(2.8)*	*(3.2)*	*(3.3)*	*(4.2)*	*(3.4)*	*(3.2)*	*(3.5)*	*(4.0)*	*(2.7)*
	Commercial Banks	501.30	395.53	545.70	408.28	559.67	735.34	916.03	1,202.12	1,765.32
12.	PUBLIC DEBT (US$ bn) End Period***	7.58	7.85	8.09	9.39	9.14	9.84	10.68	12.04	13.46
	Domestic	2.50	2.80	3.30	3.90	3.85	4.14	4.84	6.08	6.66
	As % of GDP	*24.09*	*22.25*	*23.11*	*26.81*	*25.32*	*23.40*	*23.18*	23.56	21.15
	External	5.08	5.05	4.79	5.49	5.29	5.70	5.84	5.96	6.80
	As % of GDP	*42.21*	*40.13*	*36.99*	*37.72*	*36.64*	*32.21*	*27.93*	23.09	21.61
13.	EXCHANGE RATE (Ksh/US$) (Annual Average)	76.20	78.60	78.70	75.93	79.28	75.55	72.10	67.32	69.18

* Provisional.
** Revised to reflect data in Economic Survey 2008.
*** Fiscal year to June 30th.
**** Figures in parentheses refer to official reserves in terms of average of current year of imports of goods and non-factor services.
[1] Previously M3XT
[2] Previously M3X
[3] Revised

Sources: Kenya National Bureau of Statistics, Treasury, Central Bank of Kenya and Nairobi Stock Exchange

SELECTED MONTHLY ECONOMIC INDICATORS

INDICATOR	2009 May	June	July	Aug	Sep	Oct	Nov	Dec	2010 Jan	Feb	March
1. INFLATION (%)											
CPI	101.84	102.05	102.33	102.94	103.42	103.68	103.87	104.66	104.89	105.18	104.97
Overall Inflation											
12-month overall inflation	9.61	8.60	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97
Average annual overall inflation	15.93	15.11	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03
2. INTEREST RATES (%)											
91-day Treasury bill interest rate	7.45	7.33	7.22	7.25	7.29	7.26	7.22	6.82	6.56	6.21	5.98
Overdraft interest rate	14.13	14.41	13.94	13.90	13.76	14.03	14.24	14.13	14.48	14.25	13.59
3. STOCK MARKET											
Nairobi Stock Exchange Price Index	2,852.57	3,294.56	3,273.10	3,102.68	3,005.41	3,083.63	3,189.55	3,247.44	3,565.28	3,629.31	4,072.93
Turnover (%)	0.49	0.61	0.48	0.45	0.37	0.49	0.64	0.34	0.96	0.59	1.01
4. GOVERNMENT BUDGET** (Ksh bn.)											
Revenue	449.64	511.35	40.08	74.82	128.90	170.83	208.56	266.08	312.0	350.7	394.4
Expenses	515.70	621.91	44.77	98.61	159.30	210.69	246.75	296.13	372.0	440.0	490.6
Budget Deficit (-) / Surplus (+)	(66.06)	(110.56)	(4.69)	(23.79)	(30.40)	(39.86)	(38.18)	(30.05)	(60.06)	(89.37)	(96.24)
5. MONEY AND CREDIT (Ksh bn.)											
Liquidity (L)[1]	1,139.47	1,166.93	1,199.96	1,212.12	1,218.18	1,243.84	1,243.50	1,280.02	1,297.90	1,311.29	1,350.17
Money Supply (M3)[2]	928.60	950.24	973.62	982.85	986.90	1,006.01	1,022.30	1,045.21	1,067.27	1,084.35	1,107.90
Reserve Money	160.40	159.94	157.95	156.88	163.49	163.45	178.20	181.96	179.45	175.26	177.46
Total Domestic Credit	835.18	854.03	858.79	871.46	880.65	900.03	931.30	955.29	984.70	1,009.01	1,017.16
Government	162.55	173.87	176.02	183.19	187.11	192.34	216.40	205.08	220.69	243.36	246.86
Private sector and other public sector	672.63	680.16	682.77	688.27	693.54	707.69	708.70	738.27	737.70	743.97	770.30
6. MONEY AND CREDIT (Annual % Change)											
Liquidity (L)[1]	7.1	13.5	15.1	15.9	15.9	15.6	14.8	17.3	**19.2**	**18.8**	**21.9**
Money Supply (M3)[2]	10.6	13.0	14.4	15.0	14.8	13.9	14.8	16.0	19.2	20.4	22.3
Reserve Money	8.8	4.6	3.7	3.3	7.1	4.0	10.9	11.2	17.7	15.4	14.2
Total Domestic Credit	18.7	21.7	18.9	17.8	13.8	12.7	15.7	18.5	22.0	24.0	22.9
Government	38.1	30.3	26.9	26.1	24.8	19.6	37.0	32.0	40.8	58.1	46.9
Private and other public sector	14.8	19.7	17.0	15.7	11.2	11.0	10.5	15.5	15.2	14.2	16.8
7. BALANCE OF PAYMENTS (US$ m)											
Overall Balance	41.20	84.39	3.61	62.03	116.95	104.63	123.86	(81.81)	(37.85)	(84.88)	
Current Account	(179.62)	(188.77)	(185.20)	(157.20)	(270.86)	(239.49)	(64.89)	(133.58)	(144.91)	73.05	
Trade Balance	(422.82)	(446.29)	(419.60)	(415.36)	(532.83)	(584.97)	(525.42)	(636.39)	(535.67)	(351.53)	
Capital and Financial Account	220.82	273.16	181.59	219.42	387.81	344.12	188.75	51.77	107.06	(157.93)	
8. FOREIGN EXCHANGE RESERVES (US$ m)	4,370.19	4,821.67	4,830.14	5,125.15	5,235.15	5,346.66	5319.81	5062.40	5279.39	5254.33	
Official***	2,928.94	3,219.52	3,215.85	3,275.65	3,707.96	3,810.00	3934.28	3847.39	3809.54	3722.55	
Months of imports cover	*2.95*	*3.26*	*3.33*	3.83	4.01	4.13	4.27	4.18	4.13	4.04	
Commercial banks	1,441.25	1,602.15	1,614.29	1,534.33	1,527.18	1,536.00	1385.53	1215.00	1,470.00	1,531.78	
9. PUBLIC DEBT (US$ bn)	12.9	13.7	13.9	14.1	14.4	14.6	14.6	14.7	14.57	14.93	15.08
Domestic	6.25	6.72	6.93	7.18	7.34	7.54	7.51	7.77	7.65	8.01	8.26
As % of GDP	20.70	21.67	22.05	22.62	22.65	23.20	22.91	23.85	23.39	24.36	25.48
External	6.62	6.94	6.95	6.95	7.00	6.96	7.04	6.94	6.91	6.92	6.81
As % of GDP	21.95	22.36	22.12	21.92	21.59	21.43	21.47	21.29	21.13	21.05	21.01
10. GROSS DOMESTIC DEBT (Ksh bn)****	489.34	518.51	530.53	547.21	550.69	567.13	562.93	588.97	580.7	608.0	639.1
11. AVERAGE EXCHANGE RATE											
Ksh/US$	79.63	77.85	76.75	76.37	75.60	75.24	74.7	75.4	75.8	76.7	76.9
Ksh/Pound Sterling	116.98	127.22	125.58	126.34	123.57	121.65	124.1	122.5	122.5	120.2	115.8
Ksh/ 100 Yen	80.76	80.61	81.29	80.49	82.70	83.38	83.8	84.1	83.1	85.0	85.0
Ksh/Euro	105.08	109.03	108.02	108.83	110.01	111.25	111.7	110.3	108.3	105.2	104.5

* Underlying inflation excluding food, energy and transport and communications

** Data on Government budget for 2008/09 fiscal year remain provisional until publication in the Annual Economic Survey

*** Figures in parentheses refer to official reserves in terms of average of current year imports of goods and non-factor services.

**** Excludes IMF funds on-lent to the Govt by the CBK, which is included in external public debt.

1 Previously M3XT

2 Previously M3X

Sources: Kenya National Bureau of Statistics, Treasury, Nairobi Stock Exchange and Central Bank of Kenya

Trends in Various Measures of Inflation

Overall Inflation

12 month overall inflation declined further from 5.2 percent in February 2010 to 4.0 percent in March 2010, with a single-digit level inflation being experienced for the eleven months to March 2010. The 12-month inflation in March 2010 was almost four times lower compared with that of March 2009 due to a decline in the inflation for most of the categories of goods and services in the consumer price index (CPI) basket, with the food and non-alcoholic beverages experiencing the largest decline. Food and non-alcoholic bererages accounted for 36.0 percent of the weight in the CPI basket.

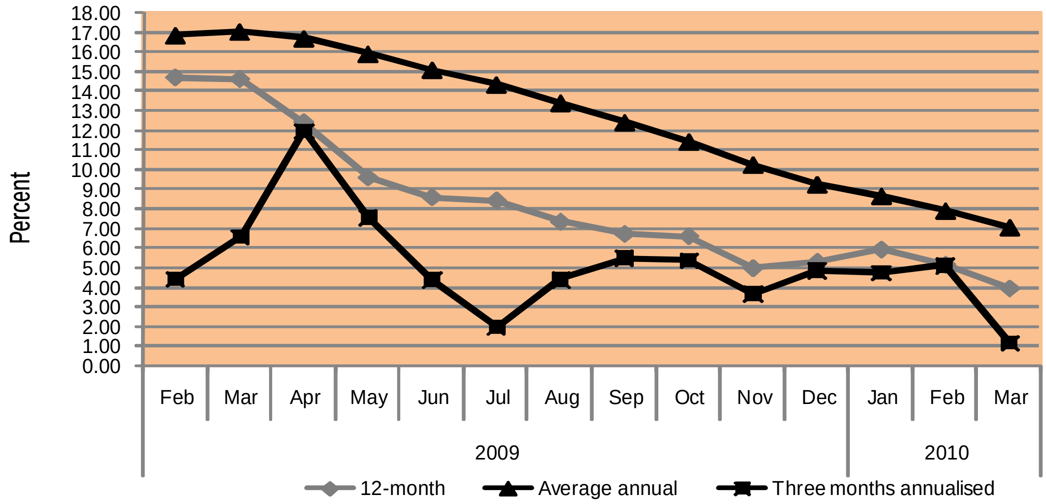
Table 1.1 and Chart 1A depict trends in overall inflation from February 2009 to March 2010.

TABLE 1.1: OVERALL INFLATION (%)

Overall Inflation	2009											2010		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
12-month	14.69	14.60	12.42	9.61	8.60	8.44	7.36	6.74	6.62	5.00	5.32	5.95	5.18	3.97
Average annual	16.87	17.07	16.72	15.93	15.11	14.35	13.42	12.41	11.42	10.24	9.24	8.64	7.88	7.03
Three months annualised	4.42	6.56	11.97	7.56	4.38	1.95	4.40	5.49	5.37	3.68	4.87	4.76	5.11	1.19

Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

CHART 1A: OVERALL INFLATION (%)



Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation by Income Groups

Overall 12-month inflation was 4.0 percent in March 2010. With the expanded coverage of CPI from just a few selected towns to cover all the eight provinces, 12-month inflation of all income groups declined with the exception of the "Nairobi Upper" income group, which recorded an increase from 5.6 percent in February 2010 to 6.3 percent in March 2010 following increases in the CPI's of food and non-alcoholic beverages, clothing and footwear, housing, water, electricity, gas and other fuels. The "Nairobi Lower", "Nairobi Middle" and the "Rest of urban" income groups' 12- month inflation declined from 6.2 percent, 3.0 percent and 5.1 percent to 4.1 percent, 2.9 percent and 4.0 percent, respectively. The easing reflected reduction in

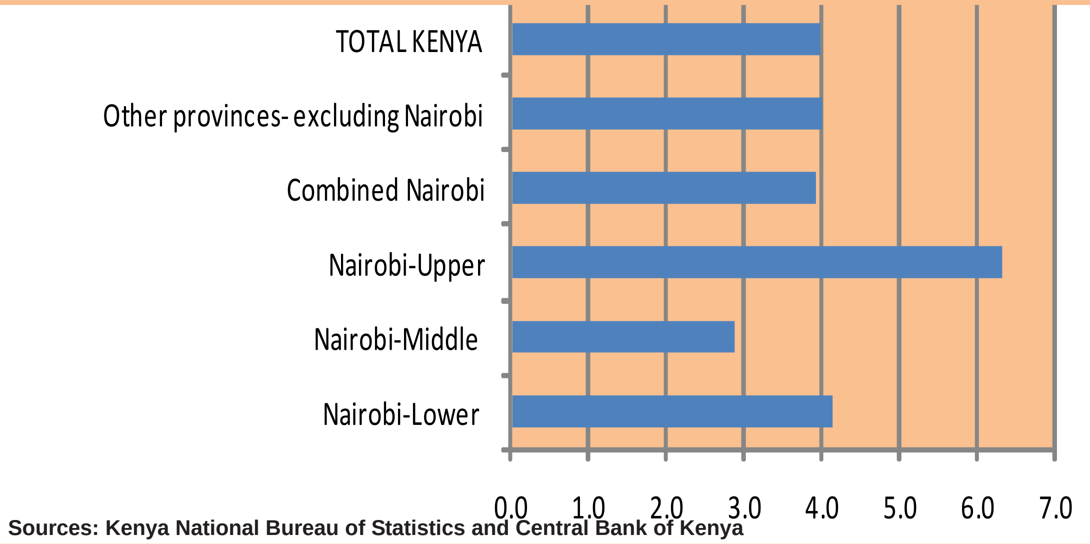
CPI for food and non-alcoholic beverages and the alcoholic beverages. Meanwhile the 12- month inflation rate for Nairobi as a whole fell from 5.4 percent in February 2010 to 3.9 percent in March 2010 (Table 1.2 and Chart 1B).

TABLE 1.2: 12-MONTH OVERALL INFLATION BY INCOME GROUPS (%)

	Feb-10	Mar-10
Combined Nairobi	5.36	3.91
Lower Income	6.16	4.12
Middle Income	2.95	2.87
Upper Income	5.56	6.32
Other provinces- excluding Nairobi	5.05	4.01
Total Kenya	**5.18**	**3.97**

Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

CHART 1B: 12-MONTH OVERALL INFLATION BY INCOME GROUPS (%)



Sources: Kenya National Bureau of Statistics and Central Bank of Kenya

Inflation Across Categories of Goods & Services

The 12-month inflation across all the various categories of goods and services for March 2010 declined with the exception of housing, water, electricity, gas and other fuels category which increased from 4.7 percent in February 2010 to 5.3 percent in March 2010 as a result of the increase in the cost of electricity. The largest decline was in the food and non-alcoholic beverages category whose inflation rate continued on a downward trend from 20.9 percent in March 2009 to 7.3 percent in February 2010 and further down to 4.5 percent in March 2010. The transport, health and alcoholic beverages, tobacco and narcotics categories experienced significant declines from 5.9 percent, 4.6 percent and 9.7 percent respectively in February 2010 to 4.3 percent, 3.3 percent and 8.5 percent, respectively, in March 2010.

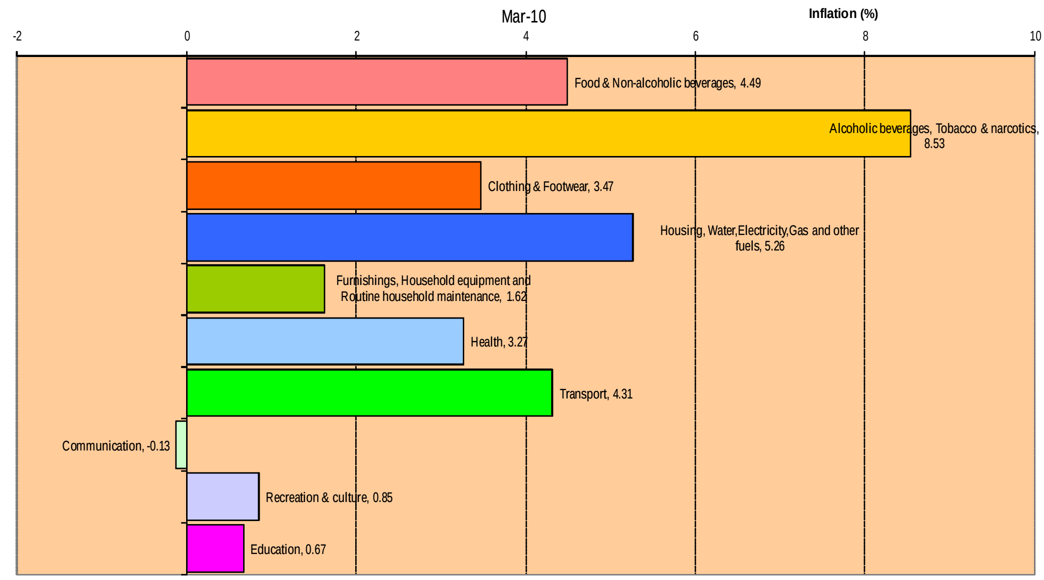
Table 1.3 and Chart 1C below show inflation developments across all the ten categories of goods and services covered in the CPI.

TABLE 1.3: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES

MARCH 2010	NAIROBI lower Income	NAIROBI Middle Income	NAIROBI Upper Income	NAIROBI Nairobi Combined	REST OF URBAN Rest of Kenya combined	TOTAL KENYA
Food & Non-alcoholic beverages	4.2	3.1	3.4	3.9	4.9	4.5
Alcoholic beverages, Tobacco & narcotics	8.3	5.1	5.4	7.4	9.3	8.5
Clothing & Footwear	3.7	0.3	7.0	3.0	3.8	3.5
Housing, Water,Electricity,Gas and other fuels	7.1	3.0	9.2	6.2	4.6	5.3
Furnishings, Household equipment and Routine household maintenance	1.6	1.1	0.6	1.4	1.7	1.6
Health	1.1	3.9	12.5	2.2	4.1	3.3
Transport	5.6	5.7	10.1	5.8	3.2	4.3
Communication	0.0	-0.5	-1.6	-0.2	-0.1	-0.1
Recreation & culture	0.5	1.3	5.9	0.9	0.8	0.8
Education	-0.4	3.9	0.3	0.7	0.7	0.7
Restaurants & hotels	2.5	5.2	-1.2	3.0	4.2	3.7
Miscellaneous goods & services	2.4	0.6	3.1	2.0	3.5	2.8
ALL GROUPS	4.1	2.9	6.3	3.9	4.0	4.0

Source: Kenya National Bureau of Statistics

CHART 1C: 12-MONTH INFLATION ACROSS THE CPI CATEGORIES OF GOODS AND SERVICES



Source: Kenya National Bureau of Statistics

Inflation Outlook

The overall inflation, is expected to remain low and stable, especially with increased food production (and lower food prices) arising from the current favourable weather.

DEVELOPMENTS IN MONEY, CREDIT AND INTEREST RATES

Monetary Aggregates

Money supply, M3[1], grew by 22.3 percent in the year to March 2010 compared with 11.7 percent in a corresponding period in 2009 and was above the projected 18.2 percent growth rate for March 2010. Broad money, M2, that is, M3 excluding foreign currency deposits, grew by 22.9 percent in March 2010 compared with 12.0 percent in March 2009 as shown in Table 2.1 and Chart 2A.

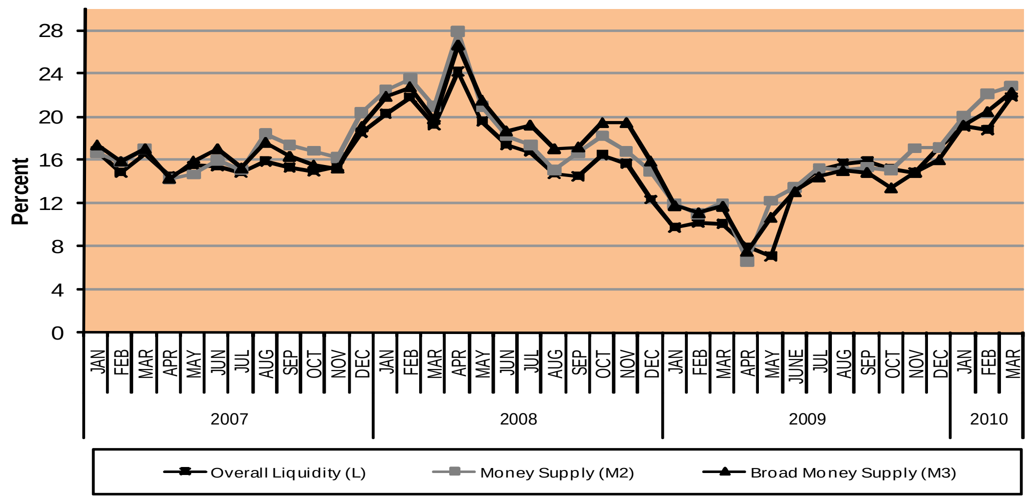
TABLE 2.1: MONEY SUPPLY AND ITS SOURCES (Ksh billion)

	2008 Mar	2009 Mar	2010 Mar	Mar-09 12 months %age change	Mar-10 12 months %age change
1. Money supply, M3 (2+3) 2/	**811.2**	**906.1**	**1107.9**	**11.7**	**22.3**
1.1 Money supply, M2 3/	697.1	780.5	959.0	12.0	22.9
1.2 Money supply, M1	380.1	408.3	465.1	7.4	13.9
1.3 Currency outside banks	85.0	87.9	96.4	3.5	9.6
2. Net foreign assets 4/	**249.6**	**266.2**	**270.5**	**6.7**	**1.6**
Central Bank	195.0	193.4	220.4	-0.9	14.0
Banking Institutions	54.5	72.9	50.1	33.7	-31.3
3. Net domestic assets (3.1+3.2)	**561.6**	**639.8**	**837.4**	**13.9**	**30.9**
3.1 Domestic credit (3.1.1+3.1.2)	**692.1**	**827.8**	**1017.2**	**19.6**	**22.9**
3.1.1 Government (net)	160.5	168.0	246.9	4.7	46.9
3.1.2 Private sector and other public sector	531.6	659.7	770.3	24.1	16.8
3.2 Other assets net (3-3.1)	**-130.5**	**-187.9**	**-179.7**	**44.0**	**-4.4**
Memorandum items					
1. Overall liquidity, L 1/	**1005.8**	**1108.0**	**1350.2**	**10.2**	**21.9**
2. Reserve money	**153.0**	**155.4**	**177.5**	**1.6**	**14.2**
Currency outside banks	85.0	87.9	96.4	3.5	9.6
Bank reserves	68.0	67.5	81.1	-0.8	20.2

Absolute and percentage changes may not necessarily add up due to rounding
1/ Overall liquidity, L, comprises M3 and non banking public holding of Government securities. It is comparable to M3XT in the past publications.
2/ Broader money, M3, comprises M2 and residents foreign currency deposits with local banks. It is comparable to M3X in the past publications.
3/ Broad money, M2, comprises currency outside banking institutions, and all private and other public sector holdings of demand and savings and time deposits. It excludes central and local Government deposits with banking
4/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

CHART 2A: ANNUAL PERCENTAGE CHANGE IN MONEY SUPPLY



Source: Central Bank of Kenya

[1] Effective September 2008, the CBK adopted a harmonized definition of monetary aggregates to conform to those of the East Africa partner states. Consequently, M3X has now been renamed M3 denoting extended broad money.

The expansion of money supply in the year to March 2010 was due to the growth in net domestic assets (NDA) and net foreign assets (NFA) of the banking system. NFA increased by 1.6 percent in the twelve months to March 2010 compared with an increase of 6.7 percent in a corresponding period in 2009. The accumulation was largely in the NFA of the Central Bank and is attributed to purchases of foreign exchange from the interbank market for the accumulation of foreign exchange reserves. NDA grew by 30.9 percent in the year to March 2010 compared with 13.9 percent a year earlier. The expansion in NDA of the banking system during the period reflected in credit to Government and to the private and other public sectors.

Domestic Credit Developments

Domestic credit grew by 22.9 percent in the year to March 2010 compared with 19.6 percent in a similar period in 2009 (Table 2.2). The distribution of lending was 74.7 percent to private sector and 25.3 percent to the Government and other public sectors. At the sector level, credit to the private sector increased by 16.1 percent in the year to March 2010 a deceleration from 26.7 percent growth in the year to March 2009. Meanwhile, credit to Government increased by 46.9 percent in the year to March 2010 compared with a growth of 4.7 percent in a corresponding period in 2009, reflecting increased uptake of government securities. The share of credit to Government increased to 24.3 percent from 20.3 percent previously.

TABLE 2.2: BANKING SYSTEM NET DOMESTIC CREDIT (KSH BILLION)

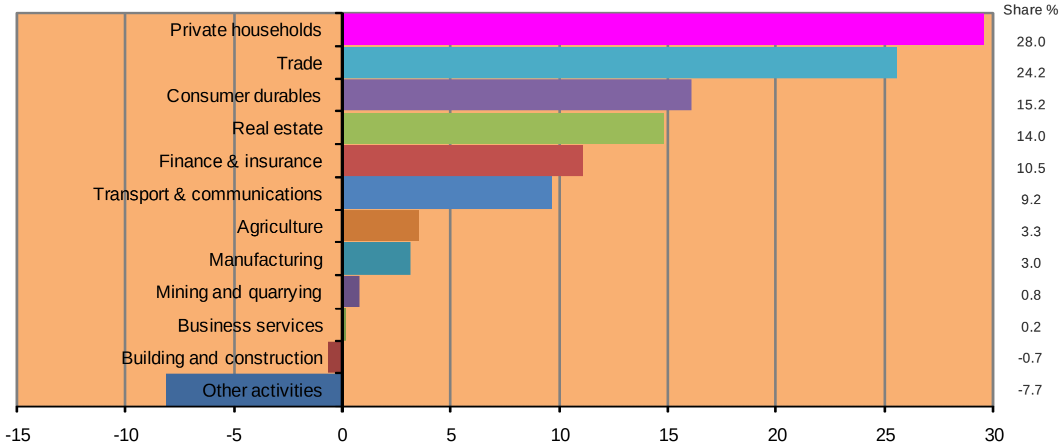
	2009 Mar		2010 Mar		Annual %age Change Mar	
	Ksh bn	Share (%)	Ksh bn	Share (%)	2008/09	2009/10
1. Credit to Government	168.0	20.3	246.9	24.3	4.7	46.9
Central Bank	0.9	0.1	-24.5	-2.4	-64.0	-2915.5
Commercial Banks & NBFIs	167.2	20.2	271.4	26.7	5.7	62.4
2. Credit to other public sector	5.9	0.7	11.0	1.1	-61.9	84.7
Local government	-3.8	-0.5	-3.8	-0.4	0.0	0.0
Parastatals	10.0	1.2	15.8	1.6	-45.0	58.0
3. Credit to private sector	653.8	79.0	759.3	74.7	26.7	16.1
Agriculture	32.7	3.9	36.2	3.6	9.9	10.7
Manufacturing	89.4	10.8	92.6	9.1	42.6	3.5
Trade	97.4	11.8	122.9	12.1	67.3	26.2
Building and construction	36.6	4.4	35.9	3.5	5.6	-1.9
Transport & communications	56.1	6.8	65.8	6.5	36.7	17.3
Finance & insurance	17.1	2.1	28.1	2.8	-32.3	64.8
Real estate	39.0	4.7	53.8	5.3	68.6	38.0
Mining and quarrying	13.2	1.6	14.0	1.4	136.4	6.1
Private households	85.7	10.4	115.3	11.3	-15.9	34.5
Consumer durables	38.6	4.7	54.7	5.4	78.5	41.7
Business services	66.0	8.0	66.1	6.5	26.4	0.3
Other activities	82.2	9.9	74.0	7.3	36.7	-9.9
4. TOTAL (1+2+3) *	827.8	100.0	1017.2	100.0	19.6	22.9

* Absolute and percentage changes may not necessarily add-up due to rounding

Source: Central Bank of Kenya

In the twelve months to March 2010, commercial banks credit to private sector was channelled as follows; to private households (28 percent), trade (24.2 percent), consumer durables (15.2 percent), real estate (14.0 percent), finance and insurance (10.5 percent), transport and communication (9.2 percent) and agriculture (3.3 percent) (Chart 2B).

CHART 2B: SHARE OF CREDIT TO THE PRIVATE SECTOR IN THE TWELVE MONTHS TO MARCH 2010 (Ksh billion)



Source: Central Bank of Kenya

Reserve Money

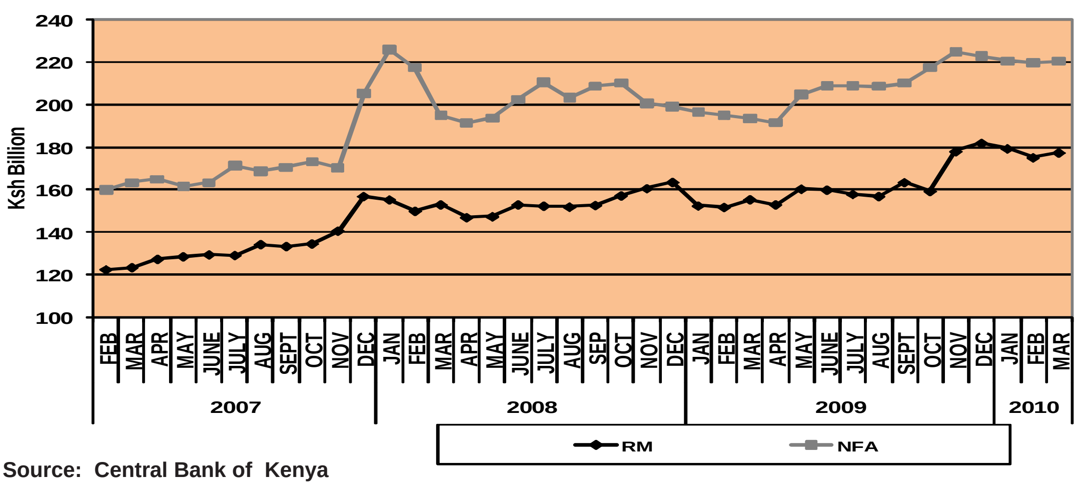
Reserve money increased by 14.2 percent to Ksh 177.5 billion in March 2010 from Ksh 155.4 billion in March 2009 (Table 2.3 and Chart 2C). The increase in reserve money reflected 20.2 percent growth in bank reserves and 9.6 percent increase in currency outside banks. At Ksh 177.5 billion in March 2010, reserve money was Ksh 1.6 billion above target

TABLE 2.3: RESERVE MONEY AND ITS SOURCES (Ksh billion)

	2008 March	2009 March	2010 March	Change (%) 2008/09	Change (%) 2009/10	2010 March Target	Deviation
1. Net Foreign Assets	195.0	193.4	220.4	-0.9	14.0	247.9	-27.5
2. Net Domestic Assets	-42.0	-37.9	-42.9	-9.7	13.2	-72.0	29.1
2.1 Government Borrowing (net)	2.4	0.9	-24.5	-64.0	-2915.5	-9.1	-15.4
2.2 Advances & Discounts	-27.6	-2.5	10.7	-90.9	-525.2	-21.4	32.1
2.3 Other Domestic Assets (net)	-19.3	-38.8	-31.7	101.0	-18.2	-44.0	12.2
3. Reserve Money	153.0	155.4	177.5	1.6	14.2	175.9	1.5
3.1 Currency outside banks	85.0	87.9	96.4	3.5	9.6	103.5	-7.1
3.2 Bank reserves	68.0	67.5	81.1	-0.8	20.2	72.5	8.6

Source: Central Bank of Kenya

CHART 2C: TRENDS IN RESERVE MONEY AND NET FOREIGN ASSETS



Source: Central Bank of Kenya

The increase in reserve money in the year to March 2010 was supported by accumulation of net foreign assets (NFA) of the Central Bank, as net domestic assets (NDA) declined. The NFA increased by 15.0 percent to Ksh 220.4 billion in the year to March 2010. The expansion of NFA was due to purchase of foreign exchange from the interbank market to boost the level of gross reserves.

During the period under review, NDA declined by 13.2 percent to Ksh -42.9 billion in March 2010, from Ksh -37.9 billion in a similar period in the previous year. The decline in NDA was due to accumulation of government deposits at Central Bank. As a result net government position at the Central Bank improved from a net indebtedness of Ksh 0.9 billion deposits in March 2009 to Ksh 24.5 billion by March 2010.

The accumulation of Government deposits led to a tightening of liquidity in the money market. The Central Bank intervened through open market operations to stabilise liquidity supply in the money market by injecting Kshs 12.2 billion in the year to March 2010. Consequently, commercial banks owed the Central Bank Ksh 10.7 billion by March 2010 compared with a net asset position of Ksh 2.5 billion in March 2009. In the same period other domestic assets net of other liabilities increased by 18.2 percent.

The Central Bank Rate

The Monetary Policy Committee (MPC) at their 12th meeting held in March 2010 lowered the Central Bank Rate (CBR) to 6.75 percent to signal a reduction in the short term interest rates. The Committee noted that given the low threat to inflation, the reduction in CBR should stimulate the supply of credit and anchor inflation expectations while supporting economic growth. The CBR was previously lowered in November 2009 to 7.0 percent from the previous position of 7.75 percent in October 2009.

Interbank Interest Rate

Consistent with the direction of the CBR, short-term interest rates declined in March 2010. The average interbank rate declined to 2.21 percent in March 2010 from 2.39 percent in February 2010 and 3.69 percent in January 2010 (Table 2.4 and Chart 2D). Similarly the reverse repo rate declined from 2.80 percent in February 2010 to 2.43 percent in March 2010. The 91-day Treasury bill rate declined to 5.98 percent in March 2010 from 6.19 percent in February 2010.

Lending and Deposit Rates

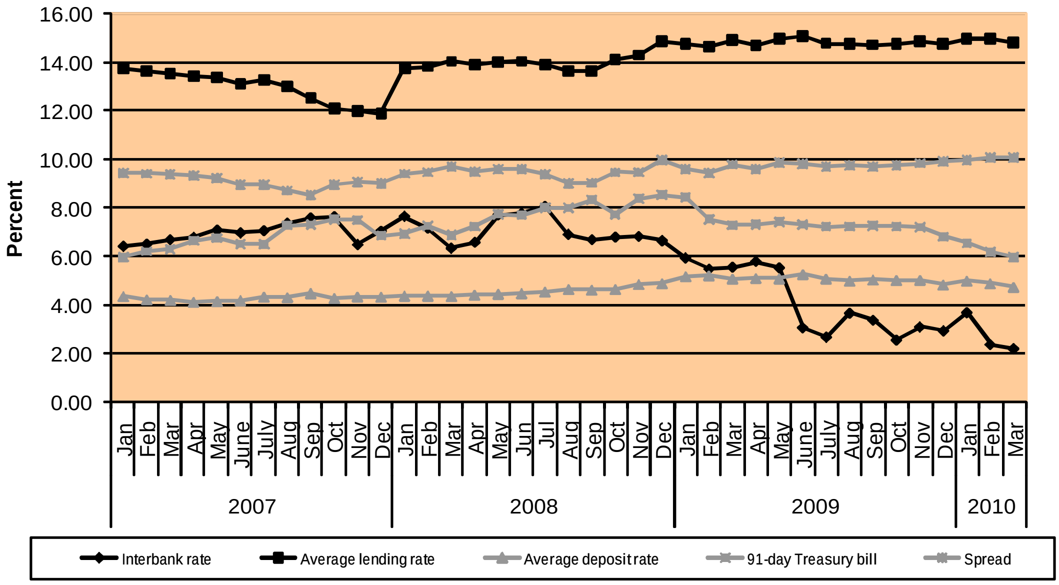
However, commercial banks average lending rates declined marginally to 14.8 percent in March 2010 from 14.98 percent in February 2010 while the average deposit rate declined from 4.89 percent in February 2010 to 4.74 percent in March 2010. As a result, the interest rate spread declined to 10.06 percent in March 2010 from 10.08 percent in February 2010.

TABLE 2.4: INTEREST RATES (%)

	2009						2010		
	Mar	Apr	Sept	Oct	Nov	Dec	Jan	Feb	Mar
91-day Treasury bill rate	7.31	7.33	7.29	7.26	7.22	6.82	6.56	6.19	5.98
Overdraft rate	13.78	13.66	13.76	14.03	14.24	14.13	14.48	14.25	13.59
Interbank rate	5.57	5.81	3.38	2.57	3.11	2.95	3.69	2.39	2.21
Repo rate	4.62	4.06	6.18	6.18	6.18	-	-	-	-
Reverse Repo rate		6.67	4.01	3.17	4.36	3.62	3.91	2.80	2.43
Average lending rate (1)	14.92	14.71	14.74	14.78	14.85	14.76	14.98	14.98	14.80
Average deposit rate (2)	5.09	5.12	5.05	5.03	5.06	4.84	5.00	4.89	4.74
0 to 3 - month deposit	5.89	5.96	6.05	5.83	5.98	5.90	5.81	5.57	5.28
Savings deposits	1.90	1.91	1.65	1.85	1.71	1.73	1.75	1.81	1.81
Spread (1-2)	**9.78**	**9.59**	**9.69**	**9.75**	**9.79**	**9.92**	**9.98**	**10.08**	**10.06**

Source: Central Bank of Kenya

CHART 2D : TRENDS IN INTEREST RATES



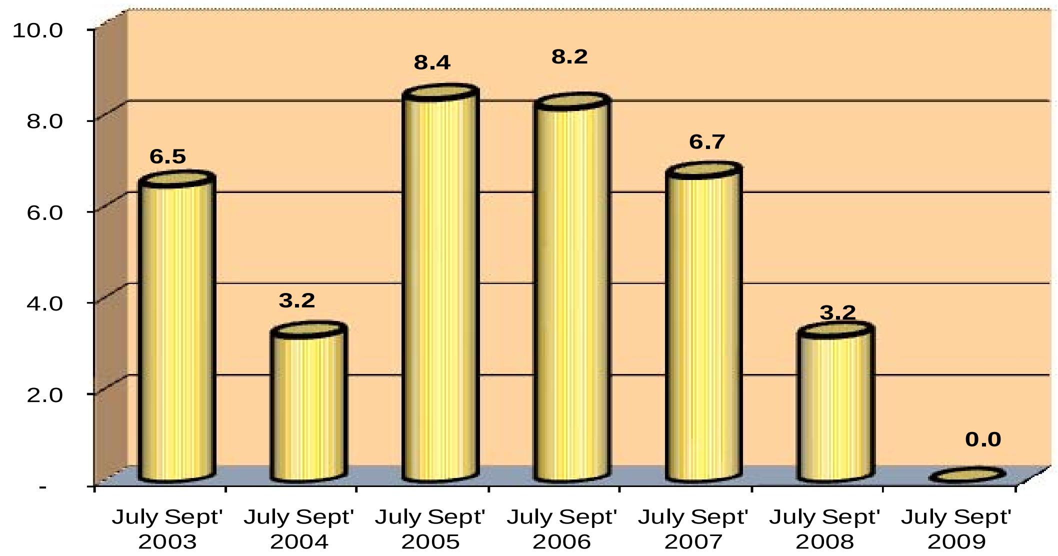
Source: Central Bank of Kenya

PERFORMANCE OF THE REAL SECTOR

Overview

During the third quarter of 2009, the economy experienced zero growth, the lowest for the quarter in the last six years with GDP for the quarter standing at Ksh 361.0 billion compared with Ksh 361.2 billion for the same quarter in 2008. This followed mixed sectoral performances during the quarter. Of significance was the decline in the value added of key sectors including agriculture and forestry, manufacturing, electricity and water supply, transport and communication and construction which declined respectively by 3.5 percent, 2.4 percent, 7.4 percent, 1.8 percent and 1.1 percent. Agriculture and forestry and the electricity sectors contracted following the persistent drought, while the manufacturing, construction and transport and communications sectors were affected by the high energy prices and the global economic recession. The decline was counteracted by growth in sectors such as hotels and restaurants, financial intermediation, education, other services, real estate, public administration and defence and the wholesale and retail trade sector which expanded during the quarter by 44.4 percent, 8.9 percent, 3.7 percent, 3.2 percent, 2.7 percent, 2.7 percent, and 1.8 percent, respectively, thus resulting in 0.0 percent overall growth (Chart 3A and Chart 3B).

CHART 3A: REAL GDP TREND IN THE THIRD QUARTERS



Source: Kenya National Bureau of Statistics

Agriculture

The agricultural sector picked up slowly in the first two months of 2010 with production level of most cash crops performing lower than in the same period in 2009 owing to repercussions of drought condition and poorly distributed rainfall in most of 2009, and early 2010. Horticultural exports, coffee and sugarcane deliveries declined during the period under review. Tea production, however, picked up from the last quarter of 2009 and into 2010 with production in January-February 2010 surpassing that of the same period in the previous year by 54.3 percent. This was attributed to wet weather conditions experienced in the tea growing areas in the east and west rift valley regions during the month. Selected performances of agricultural output are shown in Table 3.1.

TABLE 3.1: OUTPUT GROWTH OF MAJOR CROPS

	CUMULATIVE			
	2008	2009	Jan - Feb 2009	Jan-Feb 2010
Tea				
Output (Metric tonnes)	345,818.00	314,193.89	47,022.78	72,547.21
Growth (%)	*-6.44%*	*-9.14%*	*-12.66%*	*54.28%*
Horticulture				
Output (Metric tonnes)	193,117.06	180,763.97	32,751.70	21,828.62
Growth (%)	*0.50%*	*-6.40%*	*-7.62%*	*-33.35%*
Coffee				
Output (Metric tonnes)	38,705.00	48,933.00	11,999.00	8,186.00
Growth (%)	*-25.95%*	*26.43%*	*65.66%*	*-31.78%*
Sugar Cane				
Output (Metric tonnes)	4,979,470.28	5,610,702.00	1,028,706.00	1,012,046.00
Growth (%)	*-4.32%*	*12.68%*	*16.99%*	*-1.62%*

Source: Tea Board of Kenya, Horticultural Crops Development Authority Coffee Board of Kenya and Sugar Board of Kenya

Tea

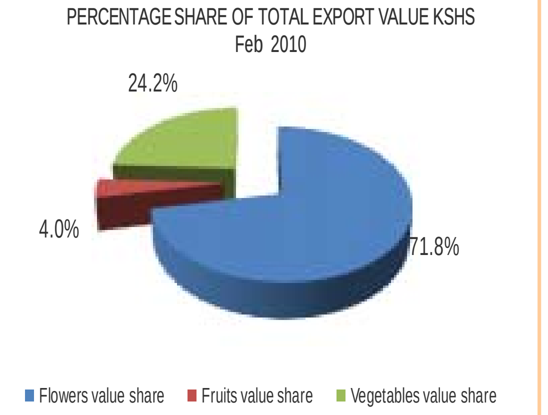
Tea production in January-February 2010 surpassed that in January-February 2009 by 25,524.4 metric tonnes or 54.3 percent. The increase in production, which began in September 2009, was attributed to wet weather conditions experienced in the tea growing areas in the east and west rift valley regions. A rise in the average prices of tea worldwide was reflected in the monthly price of the Kenyan tea which stood at US$ 3.13 per kilogram in February 2010 compared with US$ 2.29 per kilogram in February 2009.

Horticulture

Cumulative horticultural exports amounted to 21,828.6 metric tonnes in the period January-February 2010, while exports for the month of February 2010 amounted to 10,114.4 metric tonnes, a level last experienced almost five years ago. The production in January - February 2010 was 33.3 percent lower than the same period in 2009, while exports were 37.1percent lower than previously. Horticultural exports in February 2010 declined by 10,114.4 metric tonnes or 38.6 percent from 16,479.5 metric tonnes in February 2009. Exports of flowers, vegetables and fruits in February 2010 compared with February 2009 declined by 34.2 percent, 38.1 percent and 53.6 percent, respectively. Consequently, the value of horticultural exports in February 2010 fell by Ksh 1.6 billion compared with February 2009, equivalent to 35.8 percent. The decline in horticultural exports was attributed to depressed demand from Kenya's traditional flower markets, which was aggravated by the global financial crisis, and low and poorly distributed rainfall in 2009 and early 2010. Details on the performance of the horticultural sub-sector are provided in Chart 3B.

CHART 3B: HORTICULTURE EXPORTS

Source: Horticultural Crops Development Authority



Source: Horticultural Crops Development Authority

Coffee

Coffee production picked up slowly in 2010 as the low season came to an end with the cumulative production for January – February 2010 falling below the production for the same period in the previous year by 3,813.0 metric tonnes or 31.8 percent. Despite its resilience, coffee succumbed to unfavourable weather conditions as output dropped in the first two months of 2010. However, it is expected that this trend may not persist as the high season approaches in the next few months. From the beginning of 2009, coffee prices maintained an upward trend, to reach an all time high of US $ 5.66 per kilogram in February 2010 compared with US $ 2.17 per kilogram in February 2009.

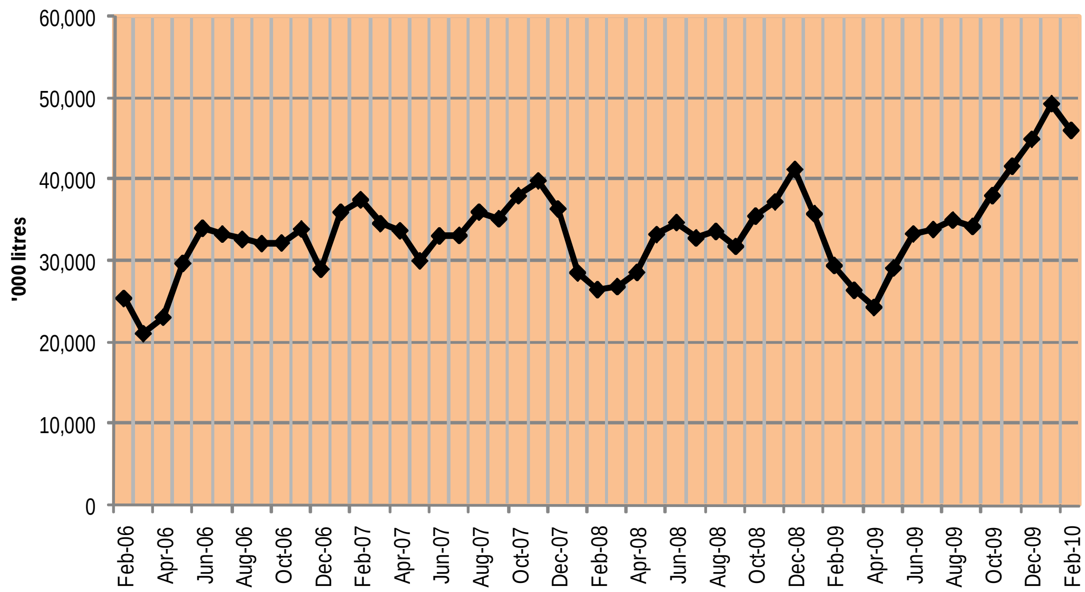
Sugarcane

Total sugarcane deliveries in the period January-February 2010 declined by 1.6 percent to stand at 1,012,046 metric tonnes, from 1,028,706 metric tonnes in January –February 2009. Despite the reduced deliveries, the acreage on suger is on the rise by firms including the West Kenya Company and the fairly new Kibos Sugar Company in Kisumu.

Dairy

The dairy sector experienced a milk glut in January – February 2010 due to overproduction in the sector which led to loss and wastage due to inadequate processing capacity. Milk intake in the formal sector began to pick up in the second half of 2009 after a period of decline occasioned by the drought experienced in the country during the year. Cumulative intakes for the period January-February 2010, the highest in the history of the dairy industry in Kenya, amounted to 95.3 million litres compared with 65.3 million litres delivered in the period January-February 2009. This was equivalent to an increase of 45.9 percent which was attributed to increased fodder following the rains experienced in the last quarter of the year (Chart 3C).

CHART 3C: PROCESSED MILK PRODUCTION IN KENYA ('000 LITRES)



Source: Dairy Board of Kenya

Manufacturing

Manufacturing picked up well in the first two months of the year 2010 except for sugar production which fell by 9,000 metric tonnes or 9.0 percent in January – February 2010 from 100,082.0 metric tonnes produced in January-February 2009.

Total cement production, on the other hand, grew by 18.4 percent in January-February 2010 compared with the same period in 2009. Growth in cement production has been gradual but steady through the years, an indication of increased economic activity. (Table 3.2 and Chart 3E)

In the alcoholic beverages sector, cumulative beer production increased by 6.1 percent from 68.1 million litres in January-February 2009 to 72.3 million litres in January-February 2010.

Cigarette output increased from 2.1 million milles in January-February 2009 to 2.2 million milles in January-February 2010 (Table 3.2).

Soda ash mining normalised in the first two months of 2010 as the industry recovered from stiff competition from cheaper synthetic imports from China, which had forced closure of some plants at Magadi Soda Company at the beginning of 2009. Total output increased by 42.5 percent from 49,936.0 metric tonnes mined in January – February 2009 to 71,161.0 metric tonnes produced in January-February 2010 .

TABLE 3.2: PRODUCTION OF SELECTED MANUFACTURED GOODS

	CUMULATIVE			
	2008	2009	Jan-Feb 2009	Jan-Feb 2010
Processed sugar			9000	
Output (MT)	512,192.3	548,207.0	100,082.0	91,082.3
Growth %	*-1.6%*	*7.0%*	*12.8%*	*-9.0%*
Cement production				
Output (MT)	2,828,799.0	3,320,282.0	494,730.0	585,538.0*
Output Growth %	11.1%	17.4%	35.5%	18.4%
Soda ash				
Output (MT)	513,415.0	404,904.0	49,936.0	71,161.0
Growth %	*32.8%*	*-21.1%*	*-34.7%*	*42.5%*
Milk				
Output ('000 litres)	390,963.0	406,276.5	65,284.2	95,275.0
Growth %	*-7.6%*	*3.9%*	*18.4%*	*45.9%*
Beer				
Output ('000 litres)	426,733.3	421,208.4	68,134.1	72,286.2
Growth %	*12.5%*	*-1.3%*	*54.3%*	*6.1%*
Cigarettes				
Output (Milles)	14,786,407	14,000,486	2,132,738	2,169,131
Growth %	*-4.5%*	*-5.3%*	*-20.1%*	*1.7%*

MT = Metric tonnes

Source: Kenya Sugar Board, Magadi Soda Co., Kenya Revenue Authority, Kenya Dairy Board and KNBS

Energy Sector

Local monthly generation of electricity for the period January –February 2010 declined by 41.1 million Kilowatt hours from 903.9 million kilowatt hours produced in January –February 2009. This was equivalent to a 4.5 percent decline. The decline in local electricity generation was attributed to a shortage in hydro-power occasioned by low water levels, and therefore, less than full capacity production of electricity in the various electricity producing dams as a resultl of drought conditions experienced in the country throughout the year 2009 (Table 3.3). Of the total power generated, cumulative Geo-Thermal and Thermal power accounted for more than 50 percent. Hydro-power and geo-thermal power production both declined in January – February 2010 by 8.6 percent and 3.7 percent, respectively, while thermal power generation increased by 39.5 percent from January – February 2009 production levels.

Consumption of electricity increased marginally by 0.9 percent from 890.5 million Kilowatt hours between January and February 2009, to 898.4 million Kilowatt hours between January and February 2010.

In the fuel sub-sector, total fuel consumption went up by 22.6 percent from 479.1 metric tonnes in January – February 2009 to 587.6 metric tonnes in January-February 2010, reflecting increased economic activity.

Average international crude oil prices went up by 37.6 percent from US $ 46.9 per barrel in January-February 2009 to US $ 64.5 per barrel in January-February 2010.

TABLE 3.3: ENERGY SECTOR PERFORMANCE

	CUMULATIVE			
	2008	2009	Jan-Feb 2009	Jan-Feb 2010
Electricity Supply (Generation)				
Output (KWH Millions)	5,694.1	5,331.5	903.9	862.8
Growth %	*-9.4%*	*-6.4%*	*-2.3%*	*-4.5%*
Of which:				
Hydro-power Generation (KWH Millions)	3,240.4	2,105.4	446.9	319.0
Growth (%)	*-9.6%*	*-35.0%*	*-20.9%*	*-28.6%*
Geo-Thermal Generation (KWH Millions)	1,038.8	1,478.1	216.4	208.3
Growth (%)	*4.8%*	*42.3%*	*29.6%*	*-3.7%*
Thermal (KWH Millions)	1,414.9	1,747.0	240.6	335.6
Growth (%)	*-17.4%*	*23.5%*	*24.2%*	*39.5%*
Consumption of electricity (KWH Millions)	5,286.4	5,320.9	890.5	898.4
Growth %	*3.1%*	*0.7%*	*3.1%*	*0.9%*
Consumption of Fuels (Metric Tonnes)	2,860.3	3,190.0	479.1	587.6
Growth %	*-8.4%*	*11.5%*	*10.3%*	*22.6%*
Murban crude oil average price (US $ per barrel)	97.9	62.6	46.9	64.5
Growth %	*35.0%*	*-36.0%*	*-49.9%*	*37.6%*

Source: Kenya National Bureau of Statistics

Tourism

The tourism sector performed well with tourist arrivals in the first two months of 2010 numbering 185,268 visitors reflecting a growth of 17.6 percent from a total of 157,559 visitors in the same period in 2009 (Table 3.4). Of the 27,709 visitors, over 80.0 percent came from Europe. The increase partly eminated from the aggressive marketing of Kenya as an attractive tourist destination in the local and international media. In February 2010 arrivals reached 91,954 compared with 79,078 and 37,184 tourists in February 2009 and February 2008, respectively. The cruise season which resumed in October 2009 with a total of 287 persons arriving via cruise ships, however, stagnated following cancellations due to insecurity off the Kenyan coast. Total tourism earnings for the period January – February 2010 stood at US$ 167.0 million, and was more than double the earnings received for the same period in the previous year.

TABLE 3.4: TOURIST ARRIVALS BY POINT OF ENTRY

	2008	2009	Jan-Feb 2009	Jan-Feb 2010	Jan -Feb 2010 % Share	Jan - Feb 2010 % Growth
CRUISE	6,877	12,096	7,753	-	*0.0%*	*-100.0%*
MIAM	112,517	176,469	41,136	54,972	*29.7%*	*33.6%*
JKIA	609,606	763,916	108,670	130,296	*70.3%*	*19.9%*
TOTAL	729,000	952,481	157,559	185,268	*100.0%*	*17.6%*

Cruise ships - Entry through port of Mombasa; JKIA - Entry through Jomo Kenyatta International Airport; MIAM - Entry through Moi International Airport Mombasa.

Source: Kenya Tourism Board

In January and February 2010, 105,823 visitors arrived from Europe, constituting 53.0 percent of the total visitors and 26.8 percent growth from the arrivals of January – February 2009 (Table 3.5). Similarly, arrivals from America, Asia, the Oceanic region, and Africa increased, respectively, by 9.6 percent, 27.1 percent, 12.2 percent and 22.8 percent. There were no arrivals via cruise ships for the period January – February 2010.

TABLE 3.5: TOTAL ARRIVALS BY CONTINENT

REGION	2008	2009	Jan-Feb 2009	Jan-Feb 2010	Jan - Feb 2010 % Share	Jan- Feb 2010 % Growth
Africa	207,770	228,827	30,400	37,323	19.3%	22.8%
America	97,771	128,658	18,006	19,738	11.4%	9.6%
Asia	94,496	108,524	15,130	19,237	9.6%	27.1%
Europe	308,123	456,427	83,466	105,823	53.0%	26.8%
Oceanic	13,963	17,949	2,804	3,147	1.8%	12.2%
Cruise	6,877	12,096	7,753	-	4.9%	-100.0%
Total	**729,000**	**952,481**	**157,559**	**185,268**	100.0%	17.6%

Source: Kenya Tourism Board

Transport and Tele-communications

The volume of cargo throughput handled by Kenya Ports Authority (KPA) at the port of Mombasa increased by 37.1 percent in the period January - February 2010 from 2,625,821 metric tonnes equivalent in January-February 2009. The cargo consisted of 87.1 percent imports, 12.5 percent exports and 0.4 percent transit shipments, equivalent to 3,136,333.4 metric tonnes, 450,105.2 metric tonnes and 14,403.4 metric tonnes, respectively. On the other hand, cargo transported via Kenya Pipeline Company (KPC) declined by 23.8 percent in the period January-February 2010. In the transport and telecommunication sector, excise duty on airtime rose by 41.1 percent in January - February 2010, from Ksh 1,036 million in January-February 2009 to Ksh 1,462 million in January-February 2010. During the same period, the total number of passengers embarking at JKIA declined by 1.8 percent, while the number of those disembarking went up by 28.1 percent (Table 3.6).

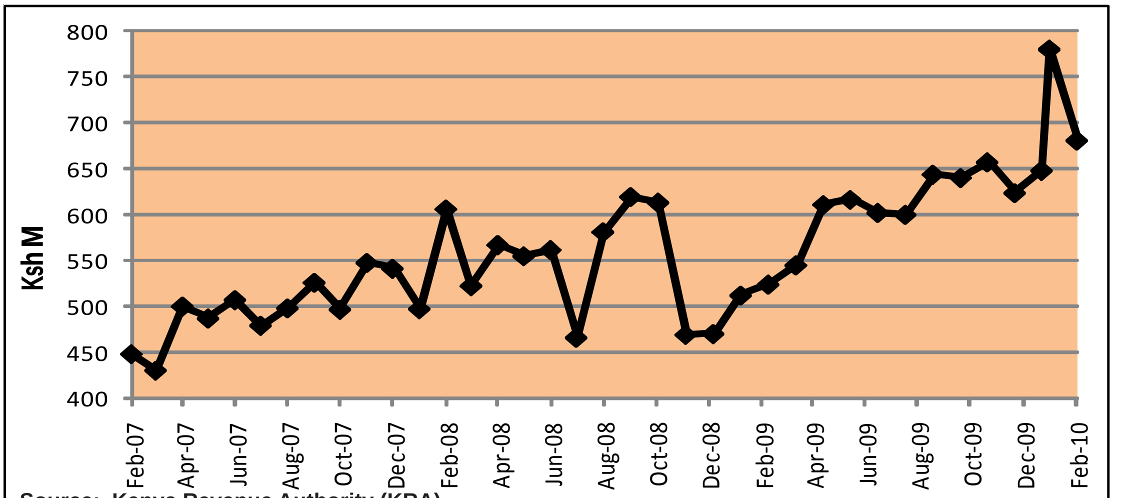
TABLE 3.6: THROUGHPUT IN SELECTED TRANSPORT FACILITIES

	CUMULATIVE			
	2008	2009	Jan-Feb 2009	Jan-Feb 2010
Mombasa Port Cargo Throughput				
Output (MT) Equivalent	16,414,729	19,061,631	2,625,821	3,600,842
Output Growth %	*2.8%*	*16.1%*	*-7.1%*	*37.1%*
Number of passengers Thro' JKIA				
Incoming	1,468,814	1,291,278	182,822	179,518
Growth (%)	*-0.7%*	*-12.1%*	*0.6%*	*-1.8%*
Outgoing	1,476,851	1,334,482	161,325	206,634
Growth %	*-0.3%*	*-9.6%*	*0.5%*	*28.1%*
Kenya Pipeline oil Throughput				
Output ('000 litres)	3,859,481	4,323,370	685,199	522,352
Output Growth %	*-2.6%*	*12.0%*	*8.9%*	*-23.8%*
Kenya Revenue Authority (Excise tax on airtime)				
Kshs million	6,528	7,225	1,036	1,462
Output Growth %	*9.5%*	*10.7%*	*-6.0%*	*41.1%*

MT = Metric tonnes

Source: Kenya Ports Authority and Kenya Pipeline Company Ltd.

CHART 3D: EXCISE TAX ON AIRTIME

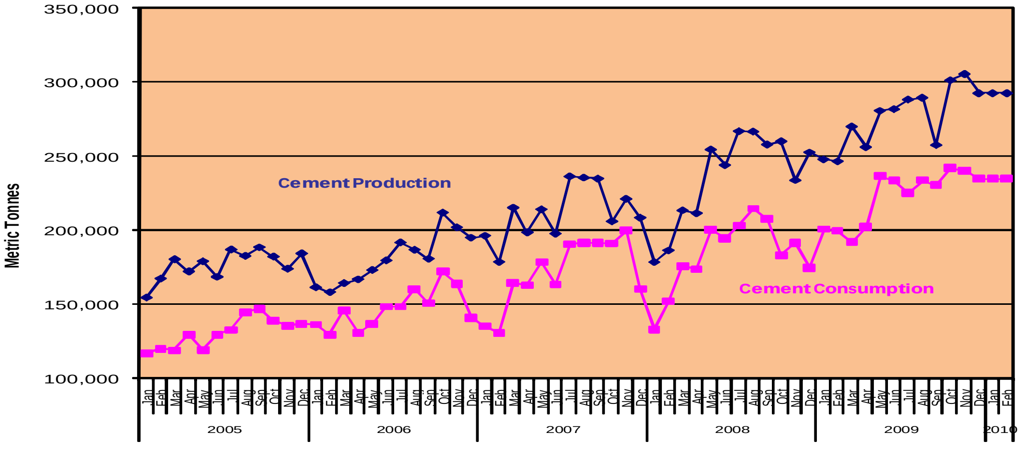


Source: Kenya Revenue Authority (KRA)

Building & Construction Industry

Cement consumption went up by 17.2 percent from 400,541 metric tonnes in January-February 2009 to 469,292 metric tonnes in January-February 2010, reflecting increased economic activity in the industry.

CHART 3E: CEMENT PRODUCTION AND CONSUMPTION



Source: Kenya National Bureau of Statistics

Developments in the Balance of Payments and Exchange Rates

Overview Kenya's overall balance of payments improved from a deficit of US$ 706 million in the year to February 2009, to a surplus of US$ 469 million in the year to February 2010. The improvement reflects a surplus in the capital and financial account which offset the deficit on the current account.

TABLE 4.1: BALANCE OF PAYMENTS (US$ M)

ITEM	Year to Feb 2009*	Year to February 2010* Q1 Mar-May	Q2 Jun-Aug	Q3 Sep-Nov	Q4 Dec-Feb	Year to Feb 2010*	Absolute Change
1. OVERALL BALANCE	-706	187	143	345	-207	469	***1174***
2. CURRENT ACCOUNT	-2316	-489	-531	-576	-205	-1801	***515***
2.1 Goods	-6332	-1290	-1281	-1643	-1524	-5738	*594*
Exports (fob)	4929	1054	1140	1161	1240	4595	*-335*
Imports (cif)	11261	2344	2421	2804	2763	10333	*-928*
2.2 Services	4016	801	750	1067	1318	3937	*-79*
Non-factor services (net)	2080	407	355	633	803	2198	*118*
Income (net)	-75	-29	-13	-25	-11	-77	*-2*
Current Transfers	2011	423	408	458	526	1816	*-195*
3. CAPITAL & FINANCIAL ACCOUNT	1611	676	674	921	-1	2270	***660***
3.1 Capital Tranfers (net)	332	96	44	32	78	250	*-82*
3.2 Financial Account	1278	580	630	889	-79	2020	*742*
memo:							
Gross Reserves	4354	4370	5125	5320	5254	5254	***900***
Official	2745	2929	3591	3934	3723	3723	*978*
*imports cover***	*2.7*	*2.9*	*3.8*	*4.3*	*4.0*	*4.0*	*1.4*
*imports cover****	*3.2*	*3.3*	*4.0*	*4.2*	*3.9*	*3.9*	*0.8*
Commercial Banks	1610	1441	1534	1386	1532	1532	*-78*

* Provisional.

** Based on current year's imports of goods and non-factor services

*** Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Current Account The current account deficit narrowed from US$ 2,316 million in the year to February 2009 to US$ 1,801 million in the year to February 2010. The improvement is attributed to a narrowing of the trade deficit relative to the decline in the surplus on the services account (Table 4.2).

TABLE 4.2: BALANCE ON CURRENT ACCOUNT (US$ M)

ITEM	Year to Feb 2009*	Year to February 2010* Q1 Mar-May	Q2 Jun-Aug	Q3 Sep-Nov	Q4 Dec-Feb	Year to Feb 2010*	Absolute Change
2. CURRENT ACCOUNT	-2316	-489	-531	-576	-205	-1801	*515*
2.1 Goods	-6332	-1290	-1281	-1643	-1524	-5738	*594*
Exports (fob)	4929	1054	1140	1161	1240	4595	*-335*
Coffee	161	63	60	40	35	198	*37*
Tea	931	179	222	256	323	980	*49*
Horticulture	726	166	167	170	190	692	*-34*
Oil products	99	15	22	32	22	92	*-7*
Manufactured Goods	619	116	128	143	139	526	*-93*
Raw Materials	289	57	49	45	71	222	*-67*
Re-exports	289	63	102	65	72	303	*14*
Other	1815	395	389	411	387	1581	*-234*
Imports (cif)	11261	2344	2421	2804	2763	10333	*-928*
Oil	2837	462	531	651	623	2266	*-571*
Chemicals	1422	345	304	340	352	1342	*-80*
Manufactured Goods	1537	305	329	424	395	1454	*-84*
Machinery & Transport Equipment	3179	662	696	828	809	2995	*-184*
Other	2286	571	560	561	585	2277	*-9*
2.2 Services	4016	801	750	1067	1318	3937	*-79*
Non-factor services (net)	2080	407	355	633	803	2198	*118*
of which tourism	730	147	143	208	245	742	*12*
Income (net)	-75	-29	-13	-25	-11	-77	*-2*
of which official interest	-121	-30	-14	-18	-22	-84	*38*
Current Transfers	2011	423	408	458	526	1816	*-195*
Private (net)	2027	423	408	458	526	1816	*-211*
Public (net)	-16	0	0	0	0	0	*16*

* Provisional.

Source: Central Bank of Kenya

The merchandise trade deficit improved from US$ 6,332 million in the year to February 2009 to US$ 5,738 million in the year to February 2010. This largely reflects the decline in nominal imports. The value of imports declined by US$ 928, while export earnings declined by US$ 335 million during the year to February 2010 compared with performance in the year to February 2009.

Imports

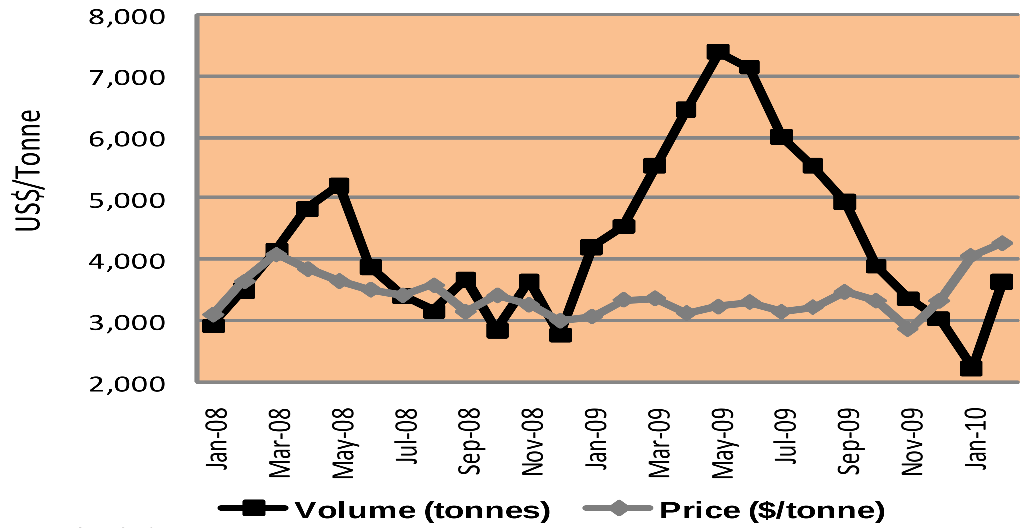
The decrease in the value of merchandise imported during the year to February 2010 was mainly in imports of oil and Machinery and Transport Equipment. The oil import bill fell from US$ 2,837 million to US$ 2,266 million due to low oil prices in the international market compared with a similar period in 2009. Imports of machinery and transport equipment declined from US$ 3,179 million to US$ 2,995 million during this period.

Exports

The value of merchandise exports declined by US$ 335 million to US$ 4,595 million reflecting decreases in exports of horticulture, manufactured goods, raw materials and oil products. Manufactured goods exports declined by US$93million following reduced exports of processed leather, iron and steel, lime, and cement. The decline in exports of raw materials by US$ 67 million reflected decreased exports of textile fibres, other crude materials, crude animals and vegetable materials. Exports of horticulture declined by US$ 34 million in the year to February 2010.

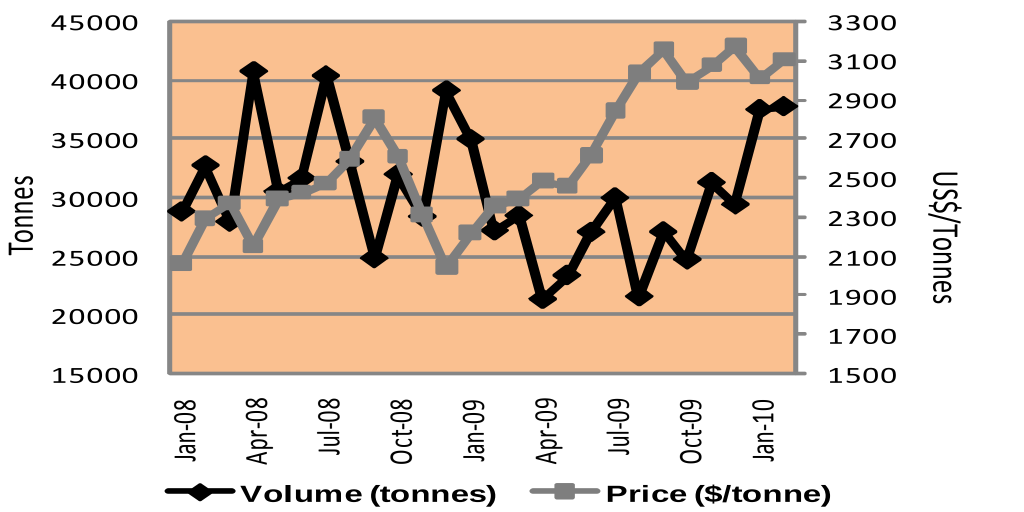
Coffee export earnings increased by US$ 37 million reflecting mainly improvement in export prices, while earnings from tea exports increased by US$ 49 million on account of improved export prices (Chart 4A and 4B). The value of re-exports also improved during the period in review, while other miscellaneous exports declined by US$ 234 million.

CHART 4A: COFFEE EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

CHART 4B: TEA EXPORTS: UNIT PRICE AND QUANTITY



Source: Central Bank of Kenya

Services Account

The surplus in the services account declined from US$ 4,016 million to US $ 3,937 million in the year to February 2010. The decline was wholly in net private transfers which fell by US$ 211 million from US$ 2011 million to US$ 1,816 million despite favourable developments in tourism earnings.

Direction of Trade

Kenya's exports were mainly to Uganda (12.8 percent), United Kingdom (11.2 percent), Tanzania (8.5 percent) and Netherlands (7.4 percent). The share of exports to African countries accounted for 46.5 percent. The share of exports to the EAC region increased from 24.9 percent to 25.2 percent while those to COMESA region declined from 32.7 percent to 32.4 percent in the year to February 2010.

During the review period, Kenya's imports were mainly from United Arab Emirates (11.9 percent), India (10.8 percent), China (10.0 percent), South Africa (9.0 percent), Japan (6.2percent), United States of America (5.7 percent) and United Kingdom (4.8 percent). The share of imports from African countries accounted for 13.5 percent. Imports from both the EAC and the COMESA regions declined from US$ 179 million and US$ 380 million to US$ 178 million (1.7 percent of total imports) and US$ 336 million (3.3 percent of total exports), respectively, in the year to February 2010 (Table 4.3).

TABLE 4.3: KENYA'S DIRECTION OF TRADE

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to February			Year to February		
Country	2008	2009	2010	2008	2009	2010
Africa	1,144	1,225	1,394	12.2	10.9	13.5
Of which						
South Africa	570	676	933	6.1	6.0	9.0
Egypt	180	148	129	1.9	1.3	1.3
Others	394	401	331	4.2	3.6	3.2
EAC	198	179	178	2.1	1.6	1.7
COMESA	454	380	336	4.8	3.4	3.3
Rest of the World	8,241	10,036	8,939	87.8	89.1	86.5
Of which						
India	891	1,293	1,115	9.5	11.5	10.8
United Arab Emirates	1,485	1,453	1,226	15.8	12.9	11.9
China	739	905	1,031	7.9	8.0	10.0
Japan	641	627	637	6.8	5.6	6.2
USA	336	487	591	3.6	4.3	5.7
United Kingdom	434	383	495	4.6	3.4	4.8
Singapore	154	349	355	1.6	3.1	3.4
Germany	345	372	300	3.7	3.3	2.9
Saudi Arabia	240	405	392	2.6	3.6	3.8
Indonesia	287	320	250	3.1	2.8	2.4
Netherlands	147	220	192	1.6	2.0	1.9
France	260	224	193	2.8	2.0	1.9
Bahrain	174	184	70	1.9	1.6	0.7
Italy	200	185	161	2.1	1.6	1.6
Others	1,907	2,629	1,932	20.3	23.3	18.7
Total	9,385	11,261	10,333	100	100	100

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to February			Year to February		
Country	2008	2009	2010	2008	2009	2010
Africa	1,894	2,329	2,136	44	47	46
Of which						
Uganda	518	621	586	12.1	12.6	12.8
Tanzania	339	422	390	7.9	8.6	8.5
Egypt	129	219	175	3.0	4.4	3.8
Sudan	176	199	171	4.1	4.0	3.7
Somalia	142	170	162	3.3	3.5	3.5
DRC	123	148	147	2.9	3.0	3.2
Rwanda	90	132	125	2.1	2.7	2.7
Others	376	417	379	8.8	8.5	8.3
EAC	984	1,228	1,158	22.9	24.9	25.2
COMESA	1,297	1,610	1,476	**30.2**	**32.7**	**32.1**
Rest of the World	2,402	2,601	2,458	55.9	52.8	53.5
Of which						
United Kingdom	463	523	514	10.8	10.6	11.2
Netherlands	350	362	339	8.2	7.3	7.4
USA	288	287	220	6.7	5.8	4.8
Pakistan	179	219	200	4.2	4.4	4.4
United Arab Emirates	139	105	165	3.2	2.1	3.6
Germany	93	88	92	2.2	1.8	2.0
India	93	94	74	2.2	1.9	1.6
Afghanistan	38	68	126	0.9	1.4	2.7
Others	759	855	727	17.7	17.3	15.8
Total	4,296	4,929	4,595	100	100	100

Source: Kenya Revenue Authority

Capital and Financial Account

The capital and financial account recorded net inflows of US$ 2,270 million in the twelve months to February 2010 compared with net inflows of US$ 1,611 million the previous year. The improvement of US$ 660 million is largely in the financial account, in particular in net private medium and long term and in short-term (net) including errors and omissions.

Net short-term capital inflows increased by US$ 609 million from US$ 1,296 million to US$ 1,905 million in the year to February 2010, while net private, medium and long-term financial inflows were US$ 9 million compared with an outflow of US$ 123 million in the previous year following reduction in commercial bank foreign assets abroad and increased short-term capital inflows. On the capital account, project related grants to the Government declined to US$ 250 million during the year under review from US$ 332 million the previous year (Table 4.4).

TABLE 4.4.: BALANCE ON CAPITAL AND FINANCIAL ACCOUNT (US$ M)

ITEM	Year to Feb 2009*	Year to February 2010* Q1 Mar-May	Q2 Jun-Aug	Q3 Sep-Nov	Q4 Dec-Feb	Year to Feb 2010*	Absolute Change
3. CAPITAL & FINANCIAL ACCOUNT	1611	676	674	921	-1	2270	***660***
3.1 Capital Tranfers (net)	332	96	44	32	78	250	*-82*
3.2 Financial Account	1278	580	630	889	-79	2020	*742*
Official, medium & long-term	97	89	-28	24	22	106	*9*
Inflows	356	130	55	76	90	351	*-5*
Outflows	-259	-41	-84	-53	-68	-245	*14*
Private, medium & long-term (net)	-114	85	-122	225	-179	9	*123*
Commercial Banks (net)	-86	81	-111	262	-183	50	*135*
Other private medium & long-term (net)	-29	4	-11	-37	4	-41	*-12*
Short-term (net) incl. errors & omissions	1296	406	780	640	78	1905	*609*

* Provisional.

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased from US$ 4,355 million in February 2009 to US$ 5,254 million in February 2010. The increase was in the gross official foreign exchange reserves held by the Central Bank which rose from US$ 2,745 million or 3.2 months of import cover in February 2009 to US$ 3,723 million or 3.9 months of import cover in February 2010 (Table 4.5). The accumulation of official reserves comprised interbank purchases and IMF support under the exogenous shock facility.

TABLE 4.5: FOREIGN EXCHANGE RESERVES AND RESIDENTS' FOREIGN CURRENCY DEPOSITS (END OF PERIOD, US$ MILLION)

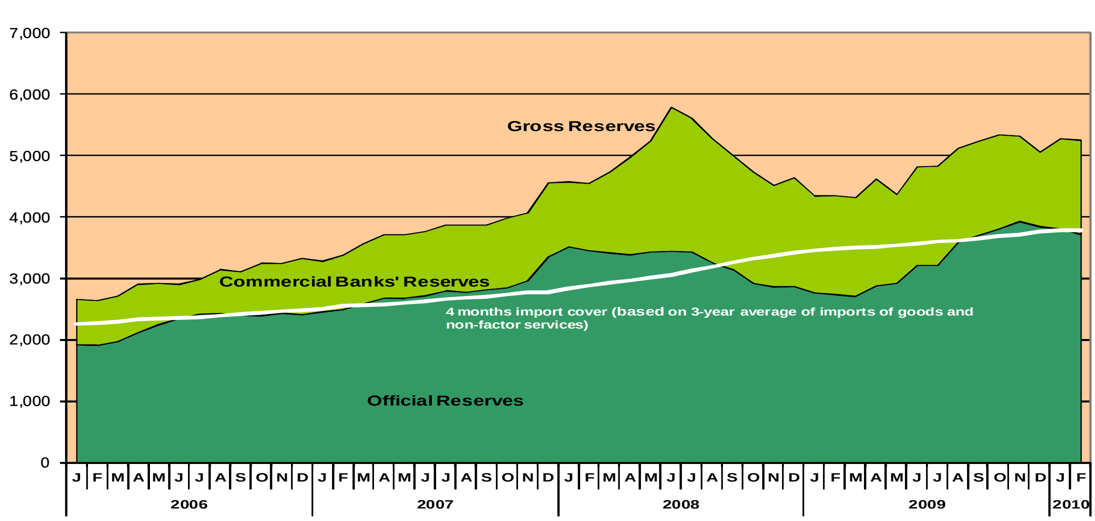
	Dec 08	Jan 09	Feb 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10
1. Gross Foreign Exchange Reserves	**4,641**	**4,349**	**4,355**	**4,830**	**4,810**	**5,235**	**5,347**	**5,320**	**5,062**	**5,279**	**5,254**
of which:											
Official	2,875	2,769	2,745	3,216	3,276	3,708	3,810	3,934	3,847	3,810	3,723
*imports cover**	*3.4*	*3.2*	*3.2*	*3.6*	*3.6*	*4.1*	*4.1*	*4.3*	*4.1*	*4.0*	*3.9*
Commercial Banks	1,766	1,580	1,610	1,614	1,534	1,527	1,536	1,386	1,215	1,470	1,532
2. Residents' foreign currency deposits	**1,810**	**1,728**	**1,654**	**1,967**	**2,064**	**1,920**	**1,917**	**2,006**	**2,036**	**2,065**	**2,013**

*Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Foreign exchange assets of commercial banks declined from US$ 1,610 million at the end of February 2009 to US$ 1,532 million at end of February 2010. The decline is attributed to low earnings on deposits abroad.

CHART 4C: FOREIGN EXCHANGE RESERVES (US$ MILLION)



Source: Central Bank of Kenya

Exchange Rates

The Kenya Shilling depicted mixed performance in March 2010 against major world currencies, weakening against both the US dollar and the Japanese Yen but strengthening against the Euro and the Sterling Pound. The depreciation of the shilling during the month reflected increased demand for dollars by oil importers, and the increased global demand for dollars. Against the US dollar, the shilling depreciated to exchange at an average of Ksh 76.95 per US dollar in March 2010 compared with Ksh 76.69 per US dollar in February 2010. Against the Japanese Yen the shilling depreciated to exchange at an average of Ksh 85.04 per 100 Japanese Yen compared with Ksh 84.99 per 100 Japanese Yen. The shilling, however, appreciated against the Euro and the Sterling Pound to exchange at Ksh 104.46 per Euro and Ksh 115.78 per Sterling Pound in March 2010, respectively, compared with Ksh 105.25 per Euro and Ksh 120.21 per Sterling Pound and in February 2010 (Table 4.6 and Chart 4D).

TABLE 4.6: KENYA SHILLING EXCHANGE RATE

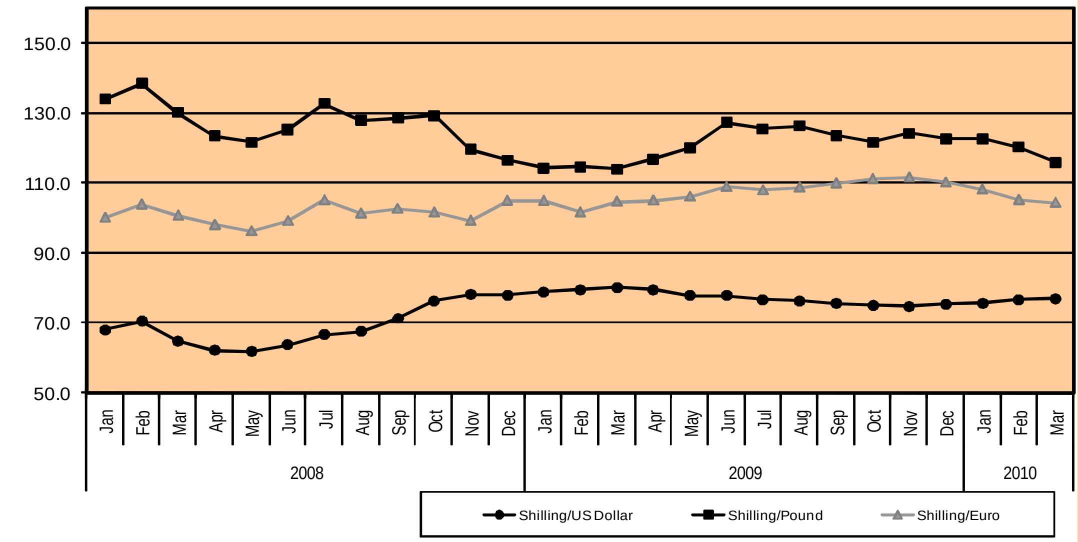
	2009							2010			
	Jan	Feb	Mar	Apr	May	June	Dec	Jan	Feb	Mar	% change Mar 10 - Feb 10
US Dollar	78.95	79.53	80.26	79.63	77.86	77.85	75.43	75.79	76.69	76.95	**0.34**
Pound Sterling	114.28	114.54	113.98	116.98	120.03	127.22	122.54	122.53	120.21	115.78	**-3.69**
100 Japanese Yen	87.45	86.18	82.22	80.76	80.63	80.61	84.12	83.11	84.99	85.04	**0.06**
Uganda Shilling*	25.05	24.73	25.59	27.29	28.84	27.47	25.20	25.53	25.97	27.10	**4.32**
Tanzania Shilling*	16.99	16.61	16.32	16.75	17.07	16.86	17.65	17.71	17.58	17.63	**0.29**
Euro	105.02	101.71	104.77	105.08	106.23	109.03	110.27	108.27	105.25	104.46	**-0.75**
Euro per US dollar	0.752	0.782	0.766	0.758	0.733	0.714	0.684	0.700	0.729	0.737	**1.10**

* Units of currency per Kenya shilling

Source: Central Bank of Kenya

Against the regional currencies, the Kenya shilling appreciated against the Uganda Shilling and Tanzania Shilling respectively to trade at Ush 27.10 per Kenya shilling and Tsh 17.68 per Kenya shilling in March 2010 compared with Ush 25.97per Kenya shilling and Tsh 17.58 per Kenya shilling in February 2010.

CHART 4D: KENYA SHILLING EXCHANGE RATE



Source: Central Bank of Kenya

Developments in The Banking Sector

Overview

For the period ended 31st March 2010, the Kenyan Banking sector registered an increase in asset base largely supported by growth in deposits, injection of capital and retention of profits. The sector registered higher capital adequacy and liquidity ratios. Similarly, there was a decline in the level of non-performing loans compared to same period in 2009.

The Kenyan-banking sector comprised of 44 commercial banks, 1 mortgage finance company, 1 deposit taking microfinance institution and 129 foreign exchange bureaus.

Structure of the Balance Sheet

The banking sector aggregate balance sheet expanded by 20.8 percent from Ksh 1,201.6 billion to Ksh 1,451.2 billion in March 2010. The main components of the balance sheet were net loans and advances, government securities and placements which accounted for 51.0 percent, 25.0 percent and 8.0 percent of total assets, respectively.

Loans & Advances

The banking sector gross loans and advances increased from Ksh. 694.4 billion in March 2009 to Ksh. 789.5 billion in March 2010 representing 13.7 percent growth. The growth was attributed to increased economic activities in the households and corporate sectors. Loans and advances net of provisions stood at Ksh 746.5 billion up from Ksh 650.9 billion registered in March 2009.

Deposit Liabilites

Deposits from customers which form the main source of funding for the banking sector accounted for 79 percent of total funding liabilities. The deposits grew by 22.8 percent from Ksh 926.8 billion in March 2009 to Ksh 1,138.0 billion in March 2010 which was attributed to branch expansion and aggressive marketing strategies for fresh deposits by some institutions, receipts from exports and remittances from abroad.

Capital & Reserves

The banking sector registered strong capital levels in March 2010 with total capital increasing by 16.4 percent from Ksh 162.9 billion in March 2009 to Ksh 189.6 billion in March 2010, whereas shareholders' funds increased by 20.9 percent from Ksh 173.6 billion in March 2009 to Ksh 209.8 billion. Similarly, the ratios of total and core capital to total risk-weighted assets increased from 20.3 percent and 18.2 percent to 20.5 percent and 18.3 percent, respectively, mainly due to capital injection and profits retention.

Profitability

In the first quarter of year 2010, the sector registered a 32.8 percent growth in pre-tax profits from Ksh 12.8 billion registered in March 2009 to Ksh 17.0 billion in March 2010. Return on assets improved from 3.3 percent to 3.7 percent in March 2010 due to the growth in profits. Total income grew by 13.5 percent from Ksh 43.8 billion to Ksh 49.7 billion in March 2010, while total expenses increased by 5.1 percent from Ksh 31.1 billion to Ksh 32.7 billion. Interest on loans and advances driven by growth in loans, fees and commissions and government securities were the main sources of income accounting for 49 percent, 28 per cent and 16 percent of total income respectively. Similarly, staff costs, other expenses and interest on deposits were the major components of expenses, accounting for 34 percent, 27 percent and 26 percent, respectively.

Non-performing Loans

The stock of gross non-performing loans (NPLs), declined by 3.1 percent from Ksh 65.0 billion in March 2009 to Ksh 63.0 billion at end of March 2010. However, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined to 48.4 percent from 51.3 percent in March 2009. The quality of assets which is measured by the proportion of net non-performing loans to gross loans improved from 3.7 percent to 3.5 percent in March 2010 as shown in Table 5.1. Similarly, gross NPLs as a ratio of gross loans improved from 9.4 percent in March 2009 to 8.0 percent in March 2010.

TABLE 5.1: NON-PERFORMING LOANS & PROVISIONS AMONG BANKS IN KENYA (KSH BILLION)

		Mar-10	Mar-09
1	Gross loans and advances	789.50	694.40
2	Loans and advances (net of interest suspended)	780.30	681.90
3	Gross non-performing loans	63.00	65.00
4	Specific Provisions	26.10	26.90
5	General Provisions	7.70	4.10
6	Total Provisions (4+5)	33.80	31.00
7	Net Advances (2-6)	746.50	650.90
8	Total Non-Performing Loans and advances	53.90	52.40
9	Net Non-Performing Loans and advances(8-4)	27.80	25.50
10	Total NPLs as % of total advances (8/2)	6.90	7.70
11	Net NPLs as % of gross advances (9/1)	3.50	3.70
12	Specific Provisions as % of Total NPLs (4/8)	48.40	51.30

Source: Central Bank of Kenya

Liquidity Ratio Requirement

As at March 2010, liquid assets stood at Ksh 479.6 billion while total liquid liabilities stood at Ksh 1,094.7 billion, resulting to an average liquidity ratio of 43.8 percent, against 39.6 percent registered in March 2009. The ratio of gross loans to deposits stood at 69.4 percent in March 2010 down from 74.9 percent in March 2009.

Cash Ratio Requirement

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.32 percent in March 2010 compared with 5.31 percent in February 2010 and 4.5 percent statutory level (Table 5.3 and Chart 5A). Commercial banks held excess reserves at the Central Bank averaging Ksh 8.38 billion in March 2010 compared with Ksh 8.09 billion in February 2010.

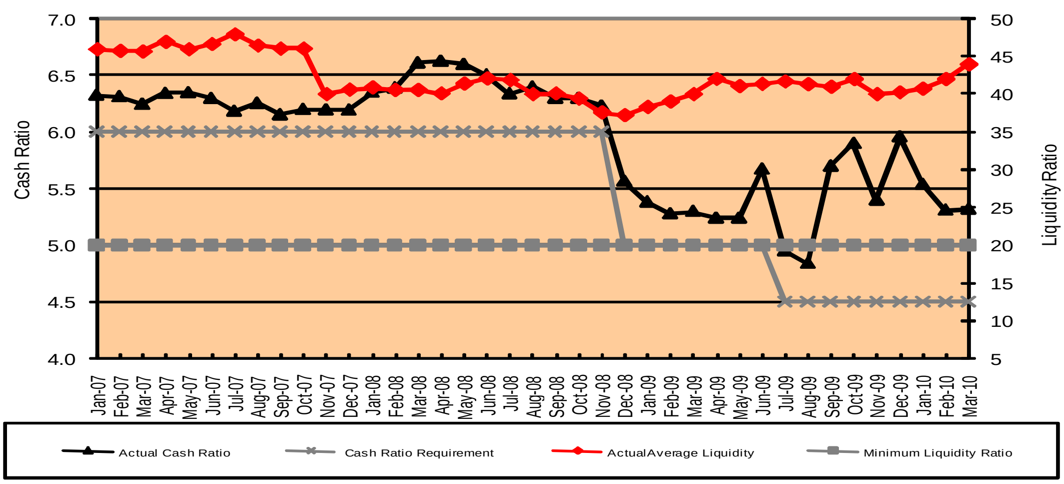
TABLE 5.2 : CASH AND LIQUIDITY RATIOS* (%)

	2009							2010		
	Jan	Feb	Mar	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Commercial Banks										
Actual Average Liquidity	38.30	38.75	40.03	41.34	41.60	40.19	40.25	40.71	42.02	43.99
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio - All Banks	5.38	5.28	5.32	5.40	5.15	5.40	5.96	5.54	5.31	5.32
Minimum Cash Ratio Requirement	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.51	4.51
NBFIs										
Actual Average Liquidity Ratio	24.63	22.72	23.89	23.38	22.89	24.61	23.96	26.24	30.43	29.70
Minimum Liquidity Ratio	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Actual Cash Ratio	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Minimum Cash Ratio Requirement	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50

* Monthly average liquidity and cash ratios

Source: Central Bank of Kenya

CHART 5A: COMMERCIAL BANKS' CASH AND LIQUIDITY RATIOS



Source: Central Bank of Kenya

KEPSS Kenya Shillings Flows

Kenya Electronic Payments and Settlement System (KEPSS) moved a volume of 77,058 transaction messages worth Ksh 1,694 billion in March 2010 compared with a volume of 65,010 transaction messages valued at Ksh 1,458 billion moved in February 2010 representing 16.2 percent and 18.5 percent increase in value and volume, respectively. This increase is attributed to increased KEPSS usage arising from value capping policy implementation and growing awareness of KEPSS system as a faster, secure, and convenient mode of payment.

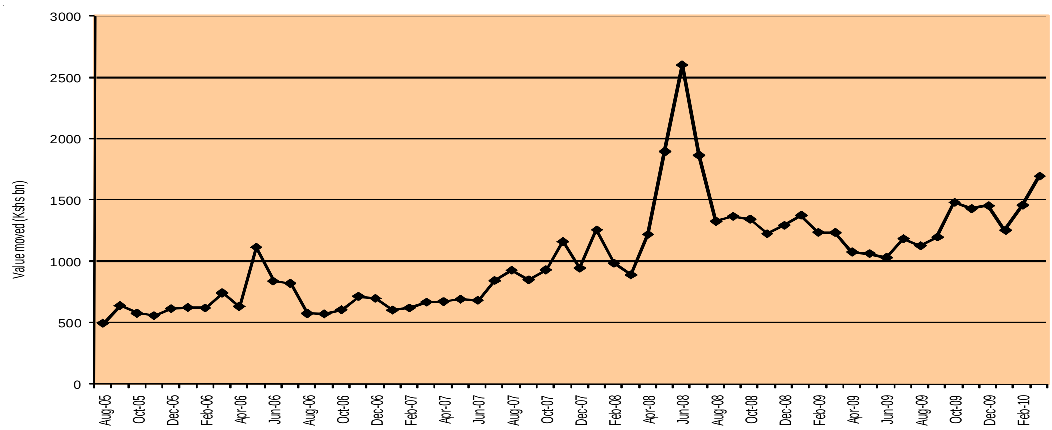
During the twelve months period to March 31, 2010, the value moved averaged Ksh 35.3 million per transaction. On average 2,049 transaction messages valued at approximately Ksh 61.0 billion per message were moved daily (Table 5.3 and Chart 5B). Payment proportions in March 2010 remained the same with direct settlements through KEPSS at 98.5 percent of the total settlements, while indirect payments (ACH Net settlement) averaged 1.5 percent.

TABLE 5.3: TRENDS IN MONTHLY FLOWS THROUGH KEPSS

	Total value moved per month (bn)	*Of which indirect* {NSI (Ksh bn)}	No. of Transactions	Average value per transaction (bn)	Days worked	Per day	
						Value (bn)	Transactions
Jan-08	1,256	78	23,773	0.05	22	57	1,081
Feb-08	985	62	23,278	0.04	21	47	1,108
Mar-08	891	60	20,920	0.04	18	49	1,162
Apr-08	1,220	107	24,684	0.05	22	55	1,122
May-08	1,895	94	19,730	0.10	21	90	940
Jun-08	2,601	115	22,387	0.12	20	130	1,119
Jul-08	1,864	75	24,599	0.08	23	81	1,070
Aug-08	1,327	59	20,593	0.06	21	63	981
Sep-08	1,367	76	23,494	0.06	22	62	1,068
Oct-08	1,344	85	23,635	0.06	20	67	1,182
Nov-08	1,225	57	22,718	0.05	21	58	1,082
Dec-08	1,293	94	24,131	0.05	20	65	1,207
Jan-09	1,376	68	25,330	0.05	21	66	1,206
Feb-09	1,236	64	20,710	0.06	19	65	1,090
Mar-09	1,235	82	23,752	0.05	22	56	1,080
Apr-09	1,077	80	22,485	0.05	20	54	1,124
May-09	1,064	70	24,024	0.04	20	53	1,201
Jun-09	1,032	80	21,977	0.05	21	49	1,047
Jul-09	1,185	75	25,650	0.05	23	52	1,115
Aug-09	1,127	69	23,001	0.05	21	54	1,095
Sep-09	1,198	90	24,552	0.05	21	57	1,169
Oct-09	1,481	27	55,440	0.03	21	71	2,640
Nov-09	1,430	21	56,900	0.03	21	68	2,710
Dec-09	1,454	29	66,916	0.02	22	66	3,042
Jan-10	1,254	18	56,862	0.02	20	63	2,843
Feb-10	1,458	22	65,010	0.02	20	73	3,251
Mar-10	1,694	26	77,058	0.02	23	74	3,350

Source: Central Bank of Kenya

CHART 5B: TRENDS IN MONTHLY FLOWS THROUGH KEPSS



Source: Central Bank of Kenya

Third party Messages

Multiple third parties Message Type (MT 102) increased by 19.5 percent from 9,238 transaction messages in February 2010 to 11,238 transaction messages in March 2010. Similarly single third party Message Type (MT 103) increased by 22.5 percent from 54,747 transaction messages to 67,052 transaction messages in the same period. Overall, total third party messages through KEPSS increased by 22.0 percent from 63,985 transaction messages in February 2010 to 78,090 transaction messages in March 2010.

Compared with March 2009, multiple third parties messages (MT 102) increased from 929 transaction messages to 11,038 transaction messages in March 2010, while single third party messages (MT 103) increased from 10,832 transaction messages to 67,052 transaction messages (Table 5.4 and Chart 5C).

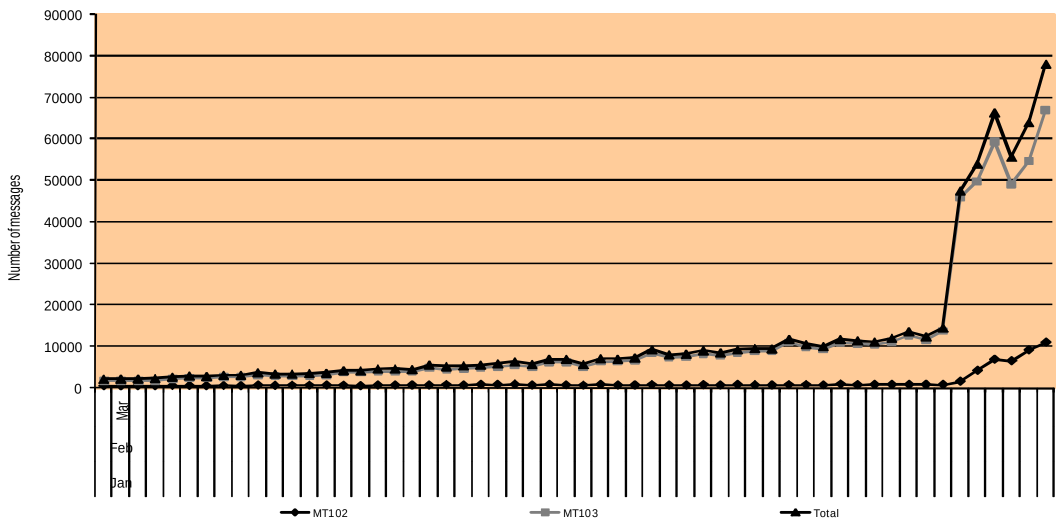
Inter-bank transfers (MT 202) accounted for 53.6 percent on average of the total value moved through KEPSS in March 2010, while third party messages accounted for 46.4 percent. The total number of third party messages (MT 102 and MT 103) increased from 11,761 messages in March 2009 to 78,090 messages in March 2010.

TABLE 5.4: TRENDS IN MT102 AND MT103 THROUGH KEPSS

		MT102	MT103	Total
2009	January	786	9,815	10,601
	February	740	9,376	10,116
	March	929	10,832	11,761
	April	758	10,671	11,429
	May	852	10,351	11,203
	Jun	866	11,194	12,060
	Jul	879	12,778	13,657
	Aug	875	11,511	12,386
	Sep	813	13,740	14,553
	Oct	1639	45,940	47,579
	Nov	4214	49,759	53,973
	Dec	6928	59,418	66,346
2010	Jan	6570	49,061	55,631
	Feb	9238	54,747	63,985
	Mar	11038	67,052	78,090

Source: Central Bank of Kenya

CHART 5C: TRENDS IN MT102 AND MT103 THROUGH KEPSS

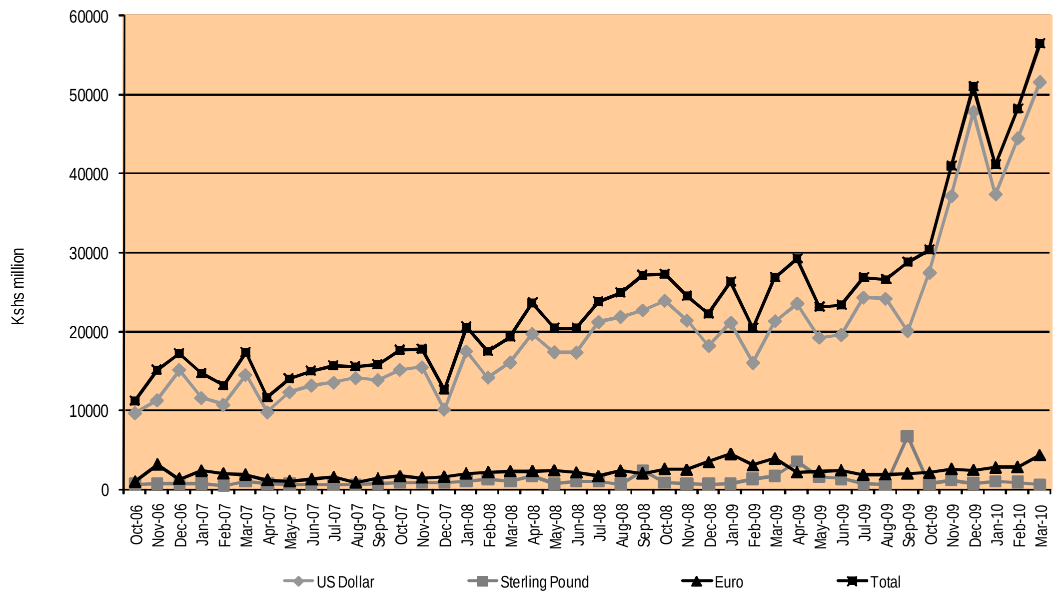


Source: Central Bank of Kenya

Domestic Foreign Currency Flows

Domestic Foreign Currency messages through KEPSS increased by 27.1 percent from 4,548 transaction messages in February 2010 to 5,781 transaction messages in March 2010. The corresponding value in Kenya Shillings equivalent moved in this period also increased by 17.1 percent from Ksh 48.20 billion to Ksh 56.45 billion. The US dollar accounted for 91.4 percent of the value moved (Chart 5D), while the Sterling Pound and the Euro accounted for 0.95 percent and 7.6 percent, respectively.

CHART 5D: DOMESTIC FOREIGN CURRENCY CHEQUE CLEARING KENYA SHILLING EQUIVALENT FLOW THROUGH KEPSS



Source: Central Bank of Kenya

Government Budget Performance

Central Government budgetary operations in the third quarter of the fiscal year 2009/10 resulted in a deficit of Ksh 96.2 billion on commitment basis compared with a deficit of Ksh 32.7 billion in a similar period of 2008/09 (Table 6.1). The deficit-to-GDP ratio increased from 1.4 percent to 3.8 percent on commitment basis, while the budget deficit on cash basis increased from 2.9 percent to 4.2 percent of GDP during the period. The budget deficit during the period was within the programmed target of 4.7 percent of GDP on commitment basis.

TABLE 6.1: STATEMENT OF CENTRAL GOVERNMENT BUDGETARY OPERATIONS (Ksh Bn)

	FY 2008/09	FY 2009/10		
	Mar Actual	Mar Provisional	Target	Over (+) / Below (-) Target
1. TOTAL REVENUE	**357.4**	**394.4**	**439.0**	**-44.6**
Revenue	344.2	384.2	410.0	**-25.8**
Tax Revenue	309.5	345.4	360.0	**-14.6**
Non Tax Revenue	12.4	11.5	16.6	**-5.0**
Appropriations-in-Aid	22.4	27.3	33.5	**-6.2**
External Grants	13.2	10.2	29.0	**-18.8**
2. TOTAL EXPENSES	**390.1**	**490.6**	**581.3**	**-90.6**
Recurrent Expenses	308.6	371.7	377.4	**-5.7**
Development Expenses	81.5	118.9	203.9	**-85.0**
3. DEFICIT ON A COMMITMENT BASIS (1-2)	**-32.7**	**-96.2**	**-142.3**	**-46.1**
As % of GDP	-1.4	-3.8	-4.7	
4. ADJUSTMENT TO CASH BASIS	**-33.1**	**-9.2**	**0.0**	**-9.2**
5. DEFICIT ON A CASH BASIS	**-65.8**	**-105.4**	**-142.3**	**-36.9**
As % of GDP	-2.9	-4.2	-5.7	
6. DISCREPANCY:Exp. (+) / Rev. (-)	**-10.2**	**9.4**	**0.0**	
7. FINANCING	**55.6**	**114.8**	**142.3**	**-27.5**
Domestic (Net)	51.2	115.7	94.9	**20.8**
External (Net)	4.4	-0.9	38.9	**-39.8**
Capital Receipts (privatisation)	0.0	0.0	6.0	**-6.0**
Others	0.0	0.0	2.5	**-2.5**
Financing gap	0.0	0.0	0.0	0.0

Source: Treasury

Revenue

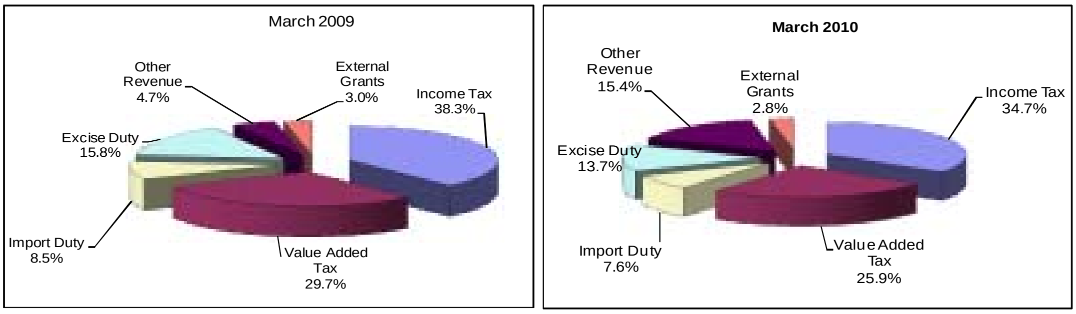
Government revenue and grants increased from Ksh 357.4 billion in the third quarter of fiscal year 2008/09 to Ksh 394.4 billion in the same period of fiscal year 2009/10 but fell short of the target by Ksh 44.6 billion. The shortfall in total revenue resulted from an underperformance of Government receipts amounting to Ksh 25.8 billion and external grants amounting to Ksh 18.8 billion (Table 6.2 and Chart 6A).

TABLE 6.2: COMPOSITION OF GOVERNMENT REVENUE (Ksh billion)

	Mar-09 Ksh bn	Mar-10 Ksh bn	Change
1. Revenue (2+3+4)	**344.2**	**384.2**	**40.0**
2. Tax Revenue	309.5	345.4	35.9
Income Tax	122.1	123.1	1.0
Value Added Tax	94.8	91.9	-2.9
Import Duty	27.1	27.0	-0.1
Excise Duty	50.5	48.7	-1.8
Others	15.0	54.7	39.7
3. Appropriations-in-Aid	22.4	27.3	4.9
4. Other Revenue	12.4	11.5	-0.8
5. External Grants	**13.2**	**10.2**	-3.0
TOTAL RECEIPTS (1+5)	**357.4**	**394.4**	37.0

Source: Treasury

CHART 6A: COMPOSITION OF GOVERNMENT RECEIPTS



Source: Treasury

Tax revenue increased by Ksh 37.0 billion (or 12.1 percent) from Ksh 309.5 billion in the third quarter of the fiscal year 2008/09 to Ksh 345.4 in the same period of the fiscal year 2009/10. Except for income tax and other taxes which grew by Ksh 1.0 billion and Ksh 39.7 billion, respectively the rest of the tax revenue sources declined during the period. In addition, appropriations-in-aid and external grants grew by Ksh 4.9 billion.

Expenditure and Net Lending

During the third quarter of the fiscal year 2009/10, Government expenditure and net lending increased by Ksh 100.5 billion from Ksh 390.1 billion in a similar period in the fiscal year 2008/09 to Ksh 490.6 billion in the fiscal year 2009/10 (Table 6.3). This rise reflected increases of Ksh 63.1 billion and Ksh 37.4 billion in recurrent and development expenditures, respectively.

The increase in recurrent expenditure reflects increases of Ksh 12.9 billion in salaries and wages, Ksh 10 billion in interest payments and Ksh 40.3 billion in other expenses. Development expenditure went up by Ksh 37.4 billion. The growth of domestic interest payments amounting to Ksh 9.9 billion during the period is as a result of higher level of debt contacted during the fiscal year 2009/10 to support the budget deficit of Ksh 109.5 billion. In addition, during the current fiscal year, the Government outlined the economic stimulus package programme amounting to Ksh 30.5 billion. The Government has so far utilised Ksh 6.7 billion against a budget of Ksh 27.5 billion for the month of March 2010.

In terms of the composition of Government expenditures, Chart 6B shows that, the share of development expenditures and recurrent expenditures stood at 24.2 percent and 75.8 percent in the fiscal year 2009/2010.

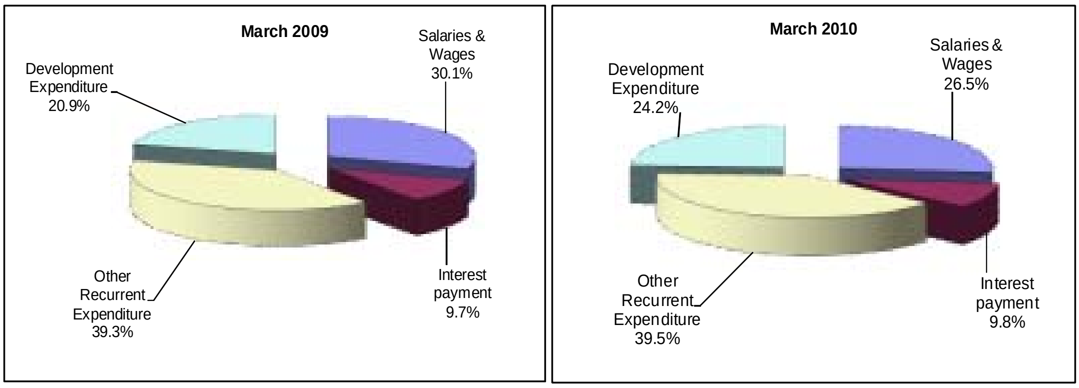
TABLE 6.3: GOVERNMENT EXPENDITURE (Ksh billion)

	Mar-09 Ksh bn	Mar-10 Ksh bn	Movement
1.Recurrent	**308.6**	**371.7**	**63.1**
Salaries & Wages	117.3	130.1	**12.9**
Total Interest	38.0	47.9	**10.0**
of which			
Domestic*	33.5	43.4	**9.9**
Foreign interest due	4.4	4.5	**0.0**
Others	153.4	193.7	**40.3**
2. Development	**81.5**	**118.9**	**37.4**
TOTAL EXPENSES	**390.1**	**490.6**	**100.5**

*Includes commission and other charges paid to Central Bank and other agencies

Source: Treasury

CHART 6B: COMPOSITION OF GOVERNMENT EXPENDITURE



Source: Treasury

Financing

During the third quarter of 2009/10 fiscal year, budgetary operations of the Government resulted in a financing requirement of Ksh 116.4 billion compared with Ksh 61.2 billion in a similar period of 2008/09 (Table 6.4). The financing requirement was in respect of the budget deficit amounting to Ksh 114.8 billion, net repayment of external debt of Ksh 0.9 billion and Ksh 0.7 billion repayment of debt to the Central Bank. The sources of financing include net domestic borrowing amounting to 115.7 billion and draw down of Government deposits at the Central Bank of Ksh 0.7 billion.

TABLE 6.4: GOVERNMENT BORROWING REQUIREMENTS & SOURCES (Ksh billion)

I. FINANCING REQUIREMENTS	Mar-09 Ksh bn	Mar-10 Ksh bn
1. Budget deficit	55.6	114.8
2. External debt reduction	0.0	0.9
3. Domestic debt reduction	5.5	0.7
3.1 Central Bank (incl. items in transit)	5.5	0.7
3.2 Commercial banks (net of deposits)	0.0	0.0
3.3 Non-bank sources	0.0	0.0
4. Increase in GoK deposits at CBK	0.0	0.0
TOTAL	61.2	116.4
II. FINANCING SOURCES	**Mar-09 Ksh bn**	**Mar-10 Ksh bn**
1. Budget surplus	0.0	0.0
2. External debt increase	4.4	0.0
3. Increase in domestic debt	29.7	115.7
3.1 Central Bank	0.0	0.0
3.2 Commercial banks	16.1	89.1
3.3 Non-bank sources	13.6	26.6
4. Reduction in GoK deposits at CBK	27.0	0.7
5. Privatisation proceeds	0.0	0.0
TOTAL	61.2	116.4

Sources: Treasury and Central Bank of Kenya

Government Borrowing from the Central Bank

Government indebtedness to the Central Bank decreased by Ksh 1.3 billion from Ksh 41.2 billion in March 2009 to Ksh 39.9 billion in March 2010.

TABLE 6.5: GOVERNMENT INDEBTEDNESS TO THE CENTRAL BANK (Ksh billion)

	2009 Mar	2010 Mar	Movement
Total Credit	**41.2**	**39.9**	**-1.3**
1. Overdraft	6.0	6.5	0.5
2. Rediscounted securities	0.2	0.0	-0.2
Treasury bills	0.2	0.0	-0.2
Treasury bonds	0.0	0.0	0.0
3. Pre-1997 Government Overdraft at CBK	33.9	32.8	-1.1
4. IMF funds onlent to Government	1.0	0.5	-0.5
5. Cleared items in transit	0.2	0.1	-0.1
Memorandum			
Authorised overdraft limit	**16.9**	**21.0**	**9.7**
Amount utilised to date	16.9	6.5	6.5
Amount available	0.0	14.5	3.2

Source: Central Bank of Kenya

Outlook for FY 2009/10

In the budget estimates for the fiscal year 2009/10, Government revenue excluding external grants is estimated at Ksh 568.9 billion (22.4 percent of GDP). External grants are estimated at Ksh 35.3 billion (1.4 percent of GDP) during the fiscal year. Similarly, Government expenditure is estimated at Ksh 772.4 billion or 30.3 percent of GDP which will comprise Ksh 509.1 billion (19.9 percent of GDP) in recurrent expenditure, Ksh 261.3 billion (10.3 percent of GDP) in development expenditure and Ksh 2.0 billion (0.08 percent) in civic contingency fund .

The overall budget deficit including grants is therefore estimated at Ksh 168.2 billion (6.6 percent of GDP) in 2009/10. The deficit is to be financed through net external borrowing of Ksh 50.2 billion (2.0 percent of GDP), net domestic borrowing of Ksh 109.5 billion (4.3 percent of GDP), privatization proceeds of Ksh 6.0 billion and net refinancing costs of Telkom totalling Ksh 2.5 billion.

Developments in Public Debt

Overall Debt

Kenya's public and publicly guaranteed debt increased by Ksh 112.4 billion by the third quarter of fiscal year 2009/10 to stand at Ksh 1166.0 billion or 46.5 percent of GDP in March 2010 from Ksh 1,053.7 billion or 44 percent of GDP in June 2009 (Table 7.1). The external debt to GDP ratio decreased from 22.4 percent in June 2009 to 21 percent in March 2010 while the domestic debt to GDP ratio increased from 21.7 percent to 25.5 percent during the period.

TABLE 7.1: KENYA'S PUBLIC DEBT (Ksh billion)

	Jun-08	June-09	Sep-09	Dec-09	Jan*	Feb**	Mar**	Change 2009/10
EXTERNAL								
Bilateral	153.2	185.9	184.8	185.3	185.0	185.4	185.3	-0.6
Multilateral***	268.2	327.1	323.1	316.5	316.8	316.2	317.9	-9.2
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Credit	18.5	22.1	22.1	23.7	23.7	23.7	23.7	1.6
Sub-Total	440.0	535.1	530.0	525.5	525.6	525.4	526.9	-8.2
(As a % of GDP)	21.6	22.4	21.8	21.3	21.2	21.1	21.0	
(As a % of total debt)	50.5	50.8	49.0	47.2	47.5	979.4	961.4	
DOMESTIC\								
Banks	228.8	290.8	310.5	343.0	338.6	368.9	384.5	93.8
Central Bank	46.4	40.1	41.6	44.7	42.8	44.5	39.6	-0.5
Commercial Banks	182.5	250.7	268.9	298.3	295.7	324.4	345.0	94.3
Non-banks	199.2	225.1	237.7	243.0	239.2	235.3	251.2	26.1
Non-bank Financial Inst.	0.7	1.0	0.8	1.1	1.1	1.1	2.0	1.0
Other Non-bank Sources	198.5	224.1	236.9	241.9	238.1	234.1	249.2	25.1
Non-residents	2.6	2.6	2.5	2.9	3.0	3.8	3.3	0.7
Sub-Total	430.6	518.5	550.7	589.0	580.7	608.0	639.1	120.6
(As a % of GDP)	21.1	21.7	22.6	23.8	23.4	24.4	25.5	
GRAND TOTAL	870.6	1053.7	1075.7	1114.5	1106.3	1133.3	1166.0	112.4
(As a % of GDP)	42.8	44.0	44.2	52.8	52.5	53.6	54.8	

* External Debt Revised
** External Debt Provisional
*** Includes IMF Loans
/1 Domestic Debt is reported on a gross basis

Note

From January 2001 domestic debt is reported on a gross basis, that is, without netting out government deposits and Treasury advances to parastatals. The debt is, however, net of IMF disbursements on-lent to the Govt. by CBK and which are considered as part of external debt.

Sources: Treasury and Central Bank of Kenya

Domestic Debt

Total domestic debt increased by 120.6 billion by the third quarter of the fiscal year 2009/10 from Ksh 518.5 billion in June 2009 to Ksh 639.1 billion in March 2010 (Table 7.2). The rise in domestic debt during the period followed increases of Ksh 44.5 billion in Treasury bills (excluding Repos) and Ksh 76.7 billion in Treasury bonds. Other domestic debt declined by Ksh 0.1 billion, however, Government overdraft at Central Bank, which is the main component of other domestic debt, decreased from Ksh 5.1 billion in June 2009 to Ksh 1.4 billion in March 2010.

TABLE 7.2: GOVERNMENT GROSS DOMESTIC DEBT (Ksh billion)

	2009								2010						Change	
	Mar	%	Jun	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	Jun09 - Mar 2010	%
Total stock of Domestic Debt (A+B)	474.9	100.0	518.5	100.0	550.7	100.0	562.9	100.0	589.0	100.0	608.0	100.0	639.1	100.0	120.6	0.0
A. Government Securities	468.2	98.6	511.6	98.7	542.4	98.5	577.6	102.6	570.7	96.9	595.8	98.0	632.3	98.9	120.7	0.3
1. Treasury Bills (excluding Repo Bills)	99.2	20.9	116.8	22.5	122.2	22.2	140.8	25.0	141.7	24.1	154.3	25.4	161.3	25.2	44.5	2.7
Banking institutions	55.2	11.6	74.6	14.4	81.3	14.8	110.8	19.7	111.2	18.9	129.2	21.2	132.6	20.7	57.9	6.3
Others	44.0	9.3	42.2	8.1	40.9	7.4	30.0	5.3	30.5	5.2	25.1	4.1	28.7	4.5	-13.4	-3.6
2. Treasury Bonds	334.4	70.4	360.7	69.6	386.1	70.1	402.7	71.5	395.5	67.1	408.0	67.1	437.5	68.5	76.7	-1.1
Banking institutions	167.6	35.3	176.0	33.9	187.5	34.1	187.5	33.3	184.6	31.3	195.2	32.1	202.9	31.7	26.9	-2.2
Others	166.8	35.1	184.8	35.6	198.5	36.1	215.2	38.2	210.9	35.8	212.8	35.0	234.6	36.7	49.8	1.1
3. Long term Stocks	0.8	0.2	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0	0.0
Banking institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.8	0.2	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.8	0.1	0.0	0.0
4. Pre-1997 Government Overdraft at CBK	33.9	7.1	33.3	6.4	33.3	6.1	33.3	5.9	32.8	5.6	32.8	5.4	32.8	5.1	-0.6	-1.3
Of which: Repo T/Bills	33.9	7.1	33.3	6.4	33.3	6.1	33.3	5.9	32.8	5.6	32.8	5.4	32.8	5.1	-0.6	-1.3
B. Others:	6.7	1.4	6.9	1.3	8.3	1.5	11.4	2.0	18.3	3.1	12.1	2.0	6.8	1.1	-0.1	-0.3
Of which CBK overdraft to Government	6.2	1.3	5.1	1.0	8.0	1.5	11.1	2.0	9.2	1.6	11.4	1.9	6.5	1.0	1.4	0.0

From January 2001 domestic debt is reported on a gross basis i.e. without netting out government deposits and Treasury advances to parastatals

Source: Central Bank of Kenya

Treasury Bills

Treasury bills increased by Ksh 44.5 billion (or 38.1 percent) from Ksh 116.8 billion in June 2009 to Ksh 161.3 billion in March 2010 (Table 7.3). The proportion of Treasury bills in total domestic debt increased from 22.5 percent of total domestic debt to 25.2 percent during the period (Table 7.3). Treasury bills holdings by commercial banks rose from Ksh 74.6 billion in June 2009 to Ksh 137.9 billion. The increase raised the share of commercial banks to 85.5 percent from 63.9 percent in June 2009. Share of Treasury bill holdings of other investors declined. In terms of composition, the shares of 91 day and 182 day Treasury bills declined from 4.9 percent and 19.5 percent in June 2009 to stand at 4.5 percent and 17.5 respectively. However, the 364 day Treasury bills which was first introduced in the market in August 2009 commands a share of 4.9 percent during this period (Table 7.5).

TABLE 7.3: OUTSTANDING TREASURY BILLS BY HOLDER (Ksh billion)

	2009						2010					
Holders	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%
Banking Institutions	74.6	63.9	81.3	66.6	110.8	78.7	111.2	78.5	129.2	83.7	138.1	85.6
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	74.6	63.9	81.3	66.6	110.8	78.7	111.2	78.4	129.2	83.7	137.9	85.5
NBFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1
Insurance Companies	17.0	14.6	15.1	12.3	11.6	8.2	11.7	8.2	9.6	6.2	9.3	5.7
Parastatals	2.3	2.0	3.7	3.0	3.3	2.4	2.9	2.0	2.7	1.7	2.8	1.7
Of which: NSSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Funds	7.0	6.0	6.5	5.3	7.5	5.3	8.3	5.8	8.9	5.7	9.3	5.7
Others	15.8	13.6	15.6	12.8	7.6	5.4	7.7	5.5	4.0	2.6	1.9	1.2
Total*	116.8	100.0	122.2	100.0	140.8	100.0	141.7	100.0	154.3	100.0	161.3	100.0

*** Excludes repurchase order bills**

Source: Central Bank of Kenya

Treasury Bonds

Treasury bonds outstanding increased by 21.3 percent from Ksh 360.7 billion in June 2009 to Ksh 437.5 billion in March 2010 (Table 7.4). Similarly, as shown in Table 7.2, the percentage of Treasury bonds in total domestic debt decreased from 69.6 percent to 68.4 percent during the period while the share of commercial banks holdings of Treasury bonds increased from 20.9 percent to 25.2 percent.

TABLE 7.4: OUTSTANDING TREASURY BONDS BY HOLDER (Ksh billion)

	2009								2010					
Holders	Mar	%	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%
Banking Institutions	168.3	50.3	176.8	49.0	188.4	48.8	188.6	46.8	185.7	46.9	196.3	48.1	204.7	46.8
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Comm. Banks	167.6	50.1	176.0	48.8	187.5	48.6	187.5	46.6	184.6	46.7	195.2	47.8	202.9	46.4
NBFIs	0.8	0.2	0.8	0.2	0.8	0.2	1.1	0.3	1.1	0.3	1.1	0.3	1.8	0.4
Insurance Companies	35.4	10.6	38.3	10.6	42.9	11.1	48.5	12.1	48.0	12.1	48.0	11.8	52.4	12.0
Parastatals	29.6	8.9	31.4	8.7	29.7	7.7	33.6	8.4	34.0	8.6	34.7	8.5	36.4	8.3
Of which: NSSF	12.5	3.7	15.8	4.4	15.9	4.1	17.0	4.2	16.6	4.2	17.9	4.4	18.3	4.2
Building Societies	0.6	0.2	0.5	0.1	0.5	0.1	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1
Pensions Fund	46.8	14.0	54.2	15.0	60.8	15.7	68.2	16.9	66.7	16.9	68.6	16.8	78.8	18.0
Others	53.7	16.1	59.6	16.5	63.8	16.5	63.3	15.7	60.7	15.3	60.0	14.7	64.8	14.8
Total	334.4	100.0	360.7	100.0	386.1	100.0	402.7	100.0	395.5	100.0	408.0	100.0	437.5	100.0

Source: Central Bank of Kenya

The 5-year Treasury bonds accounted for the largest proportion of outstanding Government securities during the period, increasing from 11.1 percent in June 2009 to 12.8 percent in March. The percentage of Treasury bonds with maturities of between 10-years and 20-years increased from 27.0 percent to 28.0 percent during the period following successful issuance of longer dated Treasury bonds. As a result of these developments the average maturity profile of domestic debt (by days to maturity) increased to 4 years and 2 months in March 2010 compared to 3 years and 6 months in June 2009.

TABLE 7.5: OUTSTANDING TREASURY BILLS AND BONDS (Ksh billion)

	2009								2010						
	Mar	%	June	%	Sep	%	Dec	%	Jan	%	Feb	%	Mar	%	Change Jun-09 to Mar 10
91-Day	26.7	6.2	23.5	4.9	22.8	4.5	24.8	4.6	21.1	3.9	23.0	4.1	26.7	4.5	3.2
182-Day	72.4	16.7	93.3	19.5	89.9	17.7	87.4	16.1	92.0	17.1	93.9	16.7	105.1	17.5	11.8
364-Day	0.0	0.0	0.0	0.0	9.4	1.9	28.6	5.3	28.6	5.3	37.4	6.6	29.5	4.9	29.5
1-Year	14.8	3.4	14.8	3.1	12.6	2.5	6.7	1.2	0.0	0.0	0.0	0.0	0.0	0.0	-14.8
2-Year	35.5	8.2	45.2	9.5	53.2	10.5	43.8	8.1	43.3	8.1	50.5	9.0	56.7	9.5	11.5
3-Year	14.0	3.2	12.8	2.7	5.8	1.1	5.8	1.1	5.8	1.1	5.8	1.0	5.8	1.0	-7.0
4-Year	16.5	3.8	12.9	2.7	12.9	2.5	7.3	1.3	7.3	1.4	7.3	1.3	7.3	1.2	-5.6
5-Year	48.7	11.2	52.8	11.1	66.7	13.1	66.7	12.3	66.7	12.4	76.5	13.6	76.5	12.8	23.7
6-Year	44.2	10.2	38.8	8.1	38.8	7.6	37.1	6.8	37.1	6.9	32.7	5.8	59.3	9.9	20.5
7-Year	24.2	5.6	24.2	5.1	24.2	4.8	24.2	4.4	24.2	4.5	24.2	4.3	21.4	3.6	-2.8
8-Year	17.9	4.1	17.9	3.8	17.9	3.5	17.9	3.3	17.9	3.3	17.9	3.2	27.6	4.6	9.7
9-Year	12.6	2.9	12.6	2.6	12.6	2.5	12.6	2.3	12.6	2.3	12.6	2.2	15.3	2.5	2.6
10-Year	39.4	9.1	44.4	9.3	57.0	11.2	57.0	10.5	57.0	10.6	57.0	10.1	57.0	9.5	12.6
11-Year	4.0	0.9	4.0	0.8	4.0	0.8	4.0	0.7	4.0	0.8	4.0	0.7	4.0	0.7	0.0
12-Year	28.5	6.6	28.5	6.0	28.5	5.6	47.4	8.7	47.4	8.8	47.4	8.4	24.4	4.1	-4.1
15-Year	32.1	7.4	42.3	8.9	42.3	8.3	51.7	9.5	51.7	9.6	51.7	9.2	61.9	10.3	19.6
20-Year	1.9	0.4	9.5	2.0	9.5	1.9	20.4	3.7	20.4	3.8	20.4	3.6	20.4	3.4	10.8
Total	433.6	100.0	477.5	100.0	508.3	100.0	543.5	100.0	537.2	100.0	562.3	100.0	598.8	100.0	

Source: Central Bank of Kenya

Government Long-term Stocks

During the third quarter of the fiscal year 2009/10, Government long term stocks remained unchanged at Ksh 0.8 billion or 0.1 percent of total domestic debt as there were neither new issues nor redemptions of the instrument.

Maturity Profile of Treasury Bills and Bonds

Cumulative redemptions of Government securities from March 2010 to May 2010 will comprise Ksh 80.7 billion in Treasury bills and Ksh 16.8 billion in Treasury bonds. Treasury bills maturities in the period will comprise Ksh 28.6 billion and Ksh 52.2 billion in 91-day and 182-day Treasury bills, respectively. The Treasury bonds maturing during this period comprise of Ksh 10.1 billion, Ksh 3.9 billion, Ksh 2.8 billion and Ksh 2.8 billion in the 2-year, 4-year and 7-year tenure, respectively.

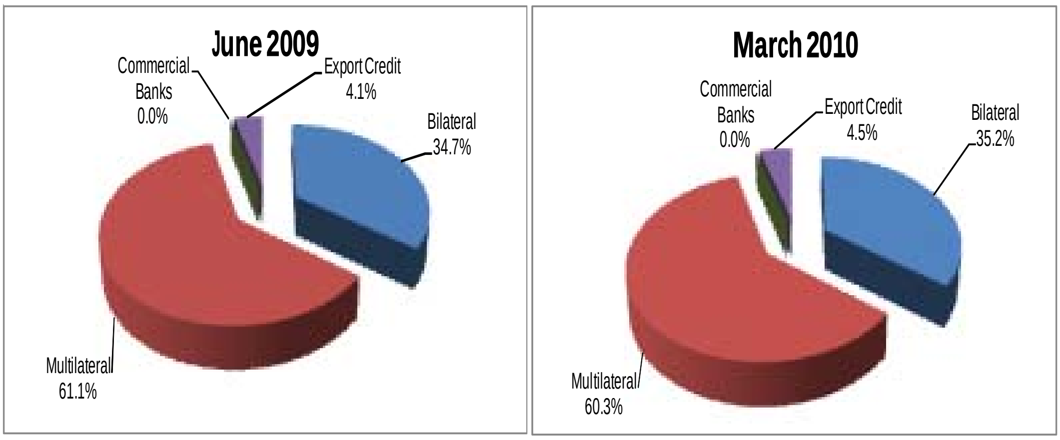
External Debt

Kenya's external debt decreased by 1.5 percent from Ksh 535.1 billion (USD 6.94 billion) in June 2009 to Ksh 526.9 billion (USD 6.94 billion) in March 2010 (Table 7.1). The drop in external debt followed external loans disbursement of Ksh 14.2 billion and revaluation losses of Ksh 7.0 billion and debt repayments of Ksh 15.9 billion.

Composition of External Debt by Creditor

The percentage of external debt owed to multilateral creditors (including IMF) decreased from 61.1 percent of total external debt to 60.3 percent, during the period. However, the percentage of external debt owed to bilateral creditors and that which is contracted through export credits increased from 34.7 percent and 4.1 percent, respectively, in June 2009 to 35.2 percent and 4.5 percent in March 2010 (Chart 7A).

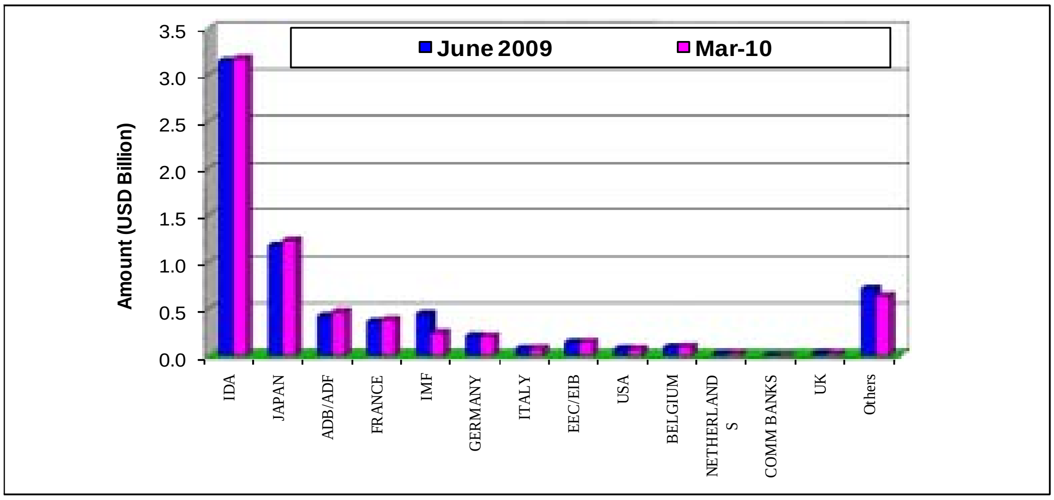
CHART 7A: COMPOSITION OF EXTERNAL DEBT



Source: Treasury

As shown in Chart 7B, external debt owed to IDA and Japan remained unchanged at USD 3.2 billion and USD 1.2 billion, respectively, in March 2010. The two institutions were the largest multilateral and bilateral creditors to Kenya during the period.

CHART 7B: EXTERNAL DEBT BY CREDITOR

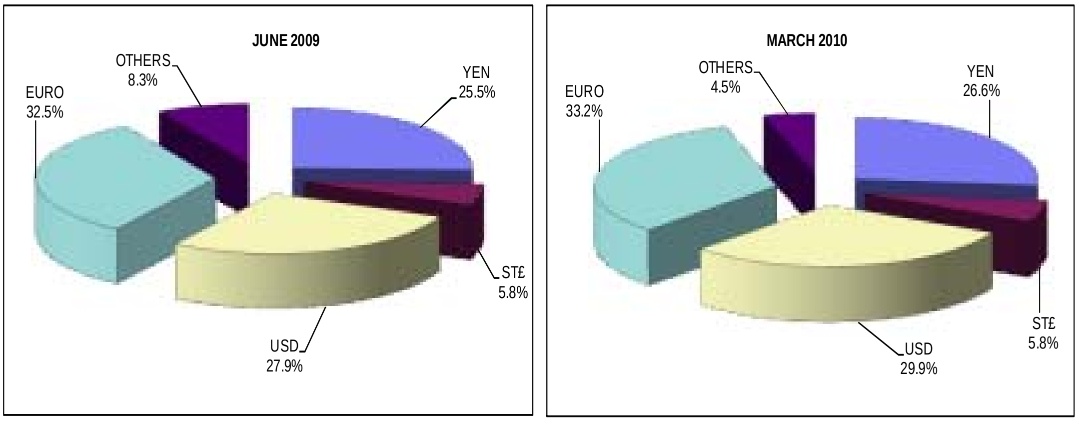


Source: Treasury

Currency Composition of External Debt

The percentage of external debt held in US dollars, Euro and Japanese Yen increased from 27.9 percent, 32.5 percent and 25.5 percent in June 2009, respectively, to 29.9 percent, 33.2 percent and 26.6 percent in March 2010. However, the external debt proportion held in other currencies including SDRs decreased from 8.3 percent to 4.5 percent during the period (Chart 7C). The external debt proportion held in Sterling Pounds remained unchanged at 5.8 percent in March 2010.

CHART 7C: EXTERNAL DEBT DISTRIBUTION BY CURRENCY



Source: Treasury

Public Debt Service

Cumulative Government expenditure on interest and other charges on domestic debt increased from Ksh 30.5 billion in the third quarter fiscal year 2008/09 to Ksh 43.0 billion in a similar period of the fiscal year 2009/10. The external debt service in the period comprised Ksh 15.9 billion in principal repayments and Ksh 4.7 billion in interest payments.

Outlook for the FY 2009/10

The budget estimates for fiscal year 2009/10 projected Government domestic borrowing at Ksh 109.5 billion (4.3 percent of GDP), while external borrowing is estimated at Ksh 50.2 billion (2.0 percent of GDP). However, as indicated in the Budget Strategy Paper for 2009/10 to 2011/12, gross domestic debt-to-GDP ratio is projected to increase from 22.7 percent in June 2009 to 24.2 percent in June 2010 as growth of GDP is expected to be sluggish relative to growth of public debt. Consequently, external debt-to-GDP ratio is expected to increase from 22.0 percent to 23.9 percent during the period.

ACTIVITY IN THE STOCK MARKET

Equity Market

Performance at the equities market improved in March 2010 as reflected by key market indicators (Table 8.1). The number of shares traded increased by 69.6 percent from 369.8 million in February 2010 to 627.0 million in March 2010. The NSE 20 share index has maintained an upward trend since September 2009, indicative of recovery in economic activity.

Equity turnover nearly doubled, having increased by Ksh 4,110.7 million (97.6 percent) from Ksh 4,214.9 million in February 2010 to Ksh 8,325.6 million in March 2010. The market capitalization improved by Ksh 61.1 billion (6.6 percent), from Ksh 922.06 billion in February 2010 to Ksh 983.12 billion in March 2010. The increase in market capitalization is attributed to the increase in price of most counters. The NSE 20 Share Index rose by 443.5 points (12.22 percent) to close at 4,072.9 points in March 2010 (Chart 8A). Market liquidity ratio increased by 41 basis points to 1.01 percent in March 2010 from 0.59 percent in February 2010 reflecting the increase in the number of shares traded. The impressive performance in the recent past is partly attributed to restoration of investor confidence in the stock market, following reforms in the capital market that have seen the proportion of local investor participation increase progressively from 28 percent in January 2010 to 67 percent in March 2010.

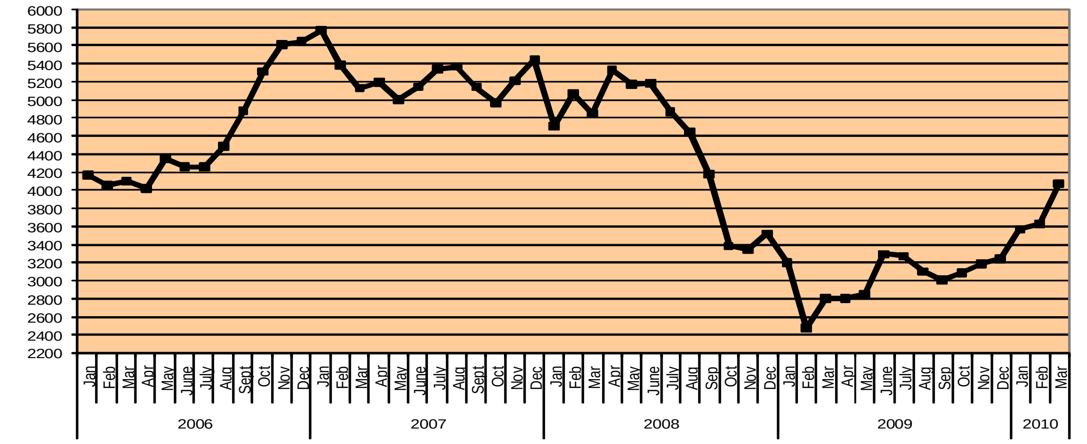
TABLE 8.1: SELECTED STOCK MARKET INDICATORS 2008 -2010

Month	NSE 20 Share Index (1966=100)	Number of Shares Traded (Millions)	Equities Turnover (Ksh Millions)	Market Capitalization (Ksh Billions)	Bond Turnover (Ksh Millions)
August 08	4,648.78	490.81	7,490.20	1,081.86	18,490.36
September 08	4,180.40	485.30	6,787.80	972.30	22,611.94
October-08	3,386.65	393.50	3,642.40	764.90	4,344.11
November-08	3,341.00	290.94	3,723.72	791.60	6,319.71
December-08	3,521.18	170.86	4,617.11	853.67	7,473.44
January-09	3,198.90	177.55	2,624.39	777.45	12,458.82
February-09	2,474.75	150.64	1,645.28	611.49	12,555.25
March-09	2,805.03	207.39	2,414.12	688.67	18,520.00
April-09	2,800.10	215.56	2,549.12	683.03	1,370.00
May-09	2,852.57	308.00	3,087.67	693.44	22,310.00
June-09	3,294.56	377.56	4,126.87	821.78	21,600.00
July-09	3,273.10	296.19	3,261.63	826.75	16,650.00
August-09	3,102.68	280.89	3,149.21	785.28	12,890.00
September-09	3,005.41	231.69	3,547.59	771.63	20,930.00
October-09	3,083.63	303.30	4,520.97	783.97	22,380.00
November-09	3,189.55	396.36	4,646.57	825.84	9,210.00
December-09	3,247.44	214.90	2,591.19	831.83	15,940.00
January-10	3,565.28	603.91	6,358.02	910.02	26,750.00
February-09	3,629.41	369.76	4,214.87	922.10	41,638.70
March-10	4,072.93	627.00	8,325.6	983.12	50,411.0

Source: Nairobi Stock Exchange

The Commercial and Services sector dominated the market trading 405.3 million shares during the month. The most traded share in the sector was Safaricom which traded 377.9 million shares. The Finance and Investment sector traded 148.5 million shares. The most active stock was Co-operative Bank which traded 47.3 million shares. The Industrial and Allied sector traded 57.7 million shares with Mumias Sugar trading 25.9 million shares. The agricultural sector traded 14.3 million shares. The most active stock was Sasini Ltd. which traded 10.5 million shares.

CHART 8A: NSE 20 SHARE INDEX (1966=100)



Source: Nairobi Stock Exchange

Bond Market The bond turnover increased by 21 percent, with bonds worth Ksh 50.4 billion traded in March 2010, compared with Ksh 41.6 million worth of bonds traded in February 2010.

Balance Sheet of the Central Bank of Kenya
(Kenya shillings million)

	Mar-10	Mar-09	Mar 10/Mar 09 Movement
ASSETS	320,145	264,523	55,622
Foreign Assets	260,375	217,444	42,931
Advances and Discounts to Banks	165	0	165
Discounted Government Securities	10,539	174	10,365
Government Accounts	39,880	41,200	-1,320
Government of Kenya Overdraft	6,545	6,199	346
Clearing Account	92	159	-67
IMF funds on-lent to Government	469	958	-489
Frozen Government Accounts	32,774	33,884	-1,110
Other assets	9,186	5,705	3,481
Debtors	5,860	3,941	1,919
Retirement Benefits Assets	1,425	55	1,370
Building and Equipment	935	1,433	-498
Prepaid Leases	272	276	-4
Intangible assets	694	0	694
LIABILITIES	320,145	264,523	55,622
Foreign Liabilities	2,281	0	2,281
Currency in Circulation	120,334	108,714	11,620
Repo Securities	0	2,510	-2,510
Deposits	170,812	119,715	51,097
Banks - Kenya	57,130	46,695	10,435
External	193	89	104
Non-Bank Financial Institutions	0	0	0
Other Public Entities and Project A/Cs	9,261	8,427	834
International Monetary Fund	35,924	21,827	14,097
Government of Kenya	64,451	40,502	23,949
Local Banks Forex Settlement Fund	3,853	2,175	1,678
Other Liabilities	2,371	4,997	-2,626
Capital and Reserves	24,347	28,587	-4,240
Capital	5,000	5,000	0
General Reserve Fund	26,804	9,254	17,550
Surplus b/f from previous year	-10,098	14,333	-24,431
Period's Surplus	0	0	0
Dividend payable	2,641	0	2,641

Source: Central Bank of Kenya

NOTES ON THE BALANCE SHEET

Asset

Foreign exchange reserves of the Bank increased by Ksh 42,931 million to Ksh 260,375 million in March 2010 from Ksh 217,444 million in March 2009 partly reflecting forex purchases from the interbank market.

Government accounts declined by Ksh 1,320 million to Ksh 39,880 million in March 2010 from Ksh 41,200 million in March 2009. The decline can be attributed to a repayment of Ksh 67 million in clearing account balances due and repayment of Ksh 489 million on IMF funds on-lent to government. The Government amortized Ksh 1,110 million of its non-interest bearing debt to Central Bank. These declines were offset by an accumulation in the outstanding overdraft of Ksh 346 million.

Other assets increased by Ksh 3,481 million in the year to March 2010 on account of increases in the value of retirement benefits by Ksh 1,370 million, and debtors by Ksh 1,919. These increases were offset by a decline of Ksh 498 million in the value of building and equipment and a decline of Ksh 4 million in prepaid leases.

Liabilites

Currency in circulation increased by Ksh 11,620 million to Ksh 120,334 million.

There were no outstanding **repo securities** in the year to March 2010.

Deposits increased by Ksh 51,097 million to Ksh 170,812 million in March 2010 on account of increases of Ksh 14,097 million in liability to the IMF, Ksh 10,435 million in commercial banks' deposits at the Central Banks, Ksh 1,678 million increase in local banks forex settlement balances and Ksh 834 million in other public entities and project accounts. Government of Kenya deposits also increase by Ksh 23,949 million.

Other liabilities and provisions declined by Ksh 2,626 million to Ksh 2,371 million in the year to March 2010.

Capital and reserves declined by Ksh 4,240 million to Ksh 24,347 million in the year to March 2010, mainly due to a decline of Ksh 19,892 million in the surplus brought forward from the previous year. This decline was offset by an increase of Ksh 17,550 million in the general reserve fund and Ksh 2,641 million in dividends payable.